

BYLAWS

OF

THE SPANISH LAKES

HOMEOWNERS ASSOCIATION

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BYLAWS OF SPANISH LAKES HOMEOWNERS ASSOCIATION

ARTICLE I

PLAN OF OWNERSHIP

- Section 1. **Name:** The name of the corporation is SPANISH LAKES HOMEOWNERS ASSOCIATION, a California Non-Profit Mutual Benefit Corporation, hereinafter referred to as the "Association." The principal office of the corporation shall be located in San Luis Obispo County, California.
- Section 2. **Property Ownership:** The "Project" is located on land in the County of San Luis Obispo, State of California, further described as Lots 1-54 of Tract 2308, south of the City of Paso Robles in the El Pomar and Salinas River Planning Area. (The term "Project" as used herein shall be as defined in the Declaration of Covenants, Conditions and Restrictions ("Declaration")).
- Section 3. **Bylaws Applicability:** The provisions of these Bylaws are applicable to the Project and to the Association.
- Section 4. **Personal Application:** All present or future owners, residents, invitees, tenants, future tenants, or the employees, or any other person that might use the facilities of the Project in any manner, are subject to the regulations set forth in these Bylaws and to the recorded or to be recorded Declaration applicable to the property or any portion thereof, and as the same may be amended from time to time as therein provided.
- The mere acquisition or rental of any lot or structure within the Project or the mere act of occupancy of any of the dwellings will signify that these Bylaws and the provisions of the Declaration are accepted, ratified, and will be complied with by any owner and/or occupant.
- Section 5. **Definitions:** The following terms, if any, as used in these Bylaws, shall have the same meaning as are applied to such terms in the Declaration: "Association," "Articles," "Member," "Lot," "Unit," "Board of Directors," "Declarant," "Mortgage," "Declaration," "Bylaws," "Project," "Common Area," "Owner," "Developer," "FHA," and "VA."

ARTICLE II

MEMBERSHIP VOTING, MAJORITY OF OWNERS, QUORUM, PROXIES

- Section 1. **Membership and Voting:** Membership and voting shall be as provided in the Declaration.
- Section 2. **Quorum:** Except as otherwise provided in these Bylaws, the presence in person or by proxy of members holding fifty-one percent (51%) or more of the votes in accordance with the voting rights provided in the Declaration shall constitute a quorum. Except as otherwise provided, decisions and resolutions of the Association shall require approval by a majority of a quorum. Any action of the Association expressly required by these Bylaws or the Declaration to have membership approval, except the provisions of the Declaration pertaining to the action to enforce the obligations of the Declarant under any completion bonds, shall require the vote or written assent of said percentage of each class of membership so long as there are two classes outstanding.
- Section 3. **Proxies:** Votes may be cast in person or by proxy. Proxies must be in writing, signed by the owner and filed with the Secretary before the appointed time for the convening of each meeting. The proxy shall identify the person or persons authorized to exercise the proxy. Proxies may expressly state a duration for effectiveness for up to three (3) years, but otherwise shall automatically become invalid after eleven (11) months. Every proxy shall be revocable and shall automatically become invalid upon the conveyance of the lot to another owner, or upon the death or declared insanity of the member.

Any form of proxy or written ballot distributed by any person to the membership of the Association 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 governing body be named in the proxy or written ballot. The proxy or written ballot shall provide that, where the member specifies a choice, the vote shall be cast in accordance with that choice.

- Section 4. **Cumulative Voting:** Every owner entitled to vote at any election for directors of the Association, may accumulate his vote and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which each member is entitled. Cumulative voting is required for all elections in which more than two (2) directors are to be elected. Except that in all elections in which the Declarant is entitled to vote, and in which the owners other than the Declarant do not have a sufficient percentage of the voting power of the Association to elect at least one (1) director through the cumulating of all of their votes, there shall be designated one (1) directorship for which the Declarant shall be ineligible to vote.

ARTICLE III

ADMINISTRATION

- Section 1. **Association Responsibilities:** The lot owners will constitute the Association of owners which will have the responsibility through its Board of Directors or directly, if membership vote is required, of administering the Project, approving the annual budget, establishing and collecting monthly assessments, and arranging for the management of the Project pursuant to an agreement containing provisions relating to the duties, obligations, removal and compensation of a management agent.
- Section 2. **Place of Meetings:** Meetings of the Association shall be held within the Project or as close thereto as practicable at such other suitable place in San Luis Obispo County, California, convenient to the Association members as may be designated by the Board of Directors.
- Section 3. **Annual Meetings:** The organizational meeting of the Association (which shall constitute the first annual meeting of the members) shall be held within forty-five (45) days after the closing of the sale of the lot which represents the 51st percentile interest authorized for sale under the initial Final Public Report for the subdivision or six (6) months after the closing of the sale of the first lot, whichever first occurs, at which time a new Board of Directors shall be elected. Prior to the first meeting, the initial Board of Directors named by the Declarant of the Project shall manage or cause to be managed the affairs of the Association. Each subsequent regular annual meeting of the members shall be held on or about the annual , anniversary of the first annual meeting of the members. Should any annual meeting day fall upon a legal holiday, then said annual meeting of members shall be held at the same time and place on the next day thereafter ensuing which is not a legal holiday. At such meetings there shall be elected by ballot of the Association members, a Board of Directors in accordance with the requirements of Section 6, Article IV of these Bylaws. Association members may also transact such other business of the Association as may properly come before them, provided it is placed on the agenda prior to the meeting.
- Section 4. **Special Meetings:** Special meetings of the Association members may be called at any time by the President or a majority of a quorum of the Board of Directors, or upon written request of five (5) percent of the members of the Association. 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 sixty percent (60%) of the Association members present, either in person or by proxy. In the event that there are no directors or officers existing in the corporation, any three (3) Association members may call and notice a special meeting to elect directors.
- Section 5. **Notice of Meeting:** It shall be the duty of the Secretary to mail a notice of each annual or special meeting stating the time and place where it is to be held and the purpose, if relating to a special meeting, to each owner of record and, upon written request therefor, to all first Mortgagees, at least ten (10) days, but not more than ninety (90) days, prior to such meeting, addressed to the Association member's address last appearing on the books of the Association, or supplied by such Association member for the purpose of notice. If no address is supplied, notice shall be deemed to have been given

if mailed to the address of the lot owned by such Association member, or published at least once in a newspaper of general circulation in the county of said principal office. The mailing of a notice in the manner provided in this Section shall be considered notice served. In the case of the organizational meeting, notice may be given by the Declarant. Only those items set forth in the Notice of Meeting may be discussed at the meeting.

Section 6. **Waiver of Notice:** The presence of all Association members, in person or by proxy, at any meeting shall render the same a valid meeting, unless any Association member shall, at the opening of such meeting, object to the holding of the same for non-compliance with the provision of Section 5 hereof. Any meeting so held, without objection, shall, notwithstanding the fact that no notice of meeting was given or that the notice given was improper, be valid for all purposes, and at such meeting any general business may be transacted and any action may be taken; provided, however, that where an Association member has pledged his vote by mortgage, deed of trust, or agreement of sale, only the presence of the pledgee shall be counted in determining whether notice is waived with respect to business dealing with such matters upon which the Association member's vote is so pledged.

The transaction of any meeting of Association members, however called and noticed, shall be valid as though had at a meeting duly held after regular call and notice, if a quorum be present, in either person or by proxy, and if either before or after the meeting, each Association member entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of such meeting or an approval of the minutes thereof. All such waivers, consents, or approvals shall be filed with the Association's records or made a part of the minutes of the meeting.

Section 7. **Adjourned Meetings:** If any meeting of Association members cannot be organized because a quorum has not attended, the Association members who are present, either in person or by proxy, may adjourn the meeting but may not transact any other business, to a time not less than five (5) days nor more than thirty (30) days from the time the original meeting was called. The quorum requirement for the subsequent meeting shall not be less than twenty-five percent (25%) of the total voting power of the Association, notwithstanding the provisions of Article H, Section 2. 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. In the event the quorum requirement becomes twenty-five percent (25%) of the voting power of the membership, then the only matters that may be voted upon at any meeting actually attended in person or by proxy by one-third (1/3) or less of the voting power, are matters the general nature of which was given in the notice of meeting.

Section 8. **Mortgagee Representation:** First Mortgagees shall have the right to attend all membership meetings through a representative designated in writing and delivered to the Board.

Section 9. **Order of Business:** The order of business of all meetings of the owners of lots shall be as follows: (a) roll call; (b) proof of notice of meeting or waiver of notice; (c) reading of minutes of preceding meeting; (d) reports of officers; (e) report of committees; (f) election of directors (organizational and annual meetings only); (g) unfinished business; and (h) new business. All meetings of the Association members shall be governed by Roberts' Rules of Order, except where such rules are inconsistent with the Declaration, the Articles of Incorporation, or these Bylaws. A majority of the Board may elect to amend this order of business.

Section 10. **Action Without Meeting:** Any action which may be taken by the vote of Association members at a regular or special meeting, except the election of governing body members where cumulative voting is a requirement, may be taken without a meeting if, pursuant to Section 7513 of the California Corporations Code, such action is authorized by a writing signed by a majority of the Association members who would be entitled to vote at a meeting for such purposes, and filed with the Secretary. Said writing shall be distributed to every Association member entitled to vote and shall specify a reasonable time within which the writing is to be returned.

Section 11. **Organization:** The President or, in his absence, the Vice President, shall call the meeting of Association members to order and shall act as chairman of the meeting. In the absence of the President

and Vice President, the Association members shall appoint a chairman for such meeting. The Secretary of the Association shall act as Secretary of all meetings of Association members, but in the absence of the Secretary at any meeting of Association members, the presiding officer may appoint any person to act as Secretary thereat.

Section 12. **Inspectors of Election:** Prior to any meeting of Association members, the Board may, if it so elects, appoint inspectors of election to act at such meeting or any adjournments thereof. If inspectors of election be not so appointed, the chairman of any such meeting may, and upon request of any Association member or his proxy shall, make such appointment at the meeting. The number of inspectors shall be either one, three or five.

ARTICLE IV

BOARD OF DIRECTORS

Section 1. **Number and Qualifications:** The affairs of the Association shall be governed by a Board of Directors composed of five (5) persons, all of whom must be lot owners in the Project except that agents of the Declarant may be directors, if elected, so long as the Declarant owns at least one lot in the Project.

Section 2. **Powers and Duties:** The Board of Directors shall have 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 directed to be exercised and done by the members. The powers of the Board of Directors shall include, but not be limited to the following:

- a. Enforce the provisions of the Declaration, Bylaws or other agreement;
- b. Adopt and publish rules and regulations governing the use of the common area and facilities and the personal conduct of the members and their guests thereon and to establish penalties, for infractions thereof and procedures for notice and hearings in connection therewith. A copy of such rules and resolutions as adopted, amended or repealed shall be mailed or otherwise delivered to each owner and a copy posted at a conspicuous place within the Project. In the event of any conflict between such rules and regulations on the one hand and these Bylaws, the Declaration or the Articles, on the other hand, the latter shall prevail.
- c. Temporarily suspend the voting rights of a member of the Association during any period in which such member shall be in default in payment of any assessment levied by the Association, and/or impose monetary penalties authorized by the Declaration. Such rights may also be suspended after notice and hearing for a period not to exceed thirty (30) days for any infraction of its rules and regulations after hearing by the Board of Directors. The procedures for notice and hearing, satisfying the minimum requirements of Section 7341 of the Corporations Code, shall be as follows with respect to the accused member before a decision to impose discipline is reached:
 - (1) Written notice shall be delivered either personally or by mail to the accused member at least fifteen (15) days prior to the imposition of discipline. Said notice shall include all facts upon which the allegation of a violation is based.
 - (2) The accused member shall be provided an opportunity to be heard, orally or in writing, not less than five (5) days before the effective date of the disciplinary action by the Board of Directors.
 - (3) The notice required hereby may be given by any method reasonably calculated to provide actual notice. Any notice given by mail must be given by first class or registered mail sent to the last address of the member shown on the Association's records. No such suspension shall affect the rights of such member to access to his lot.
- d. Contract and pay for goods and services relating to the common area, and to employ personnel necessary for the operation and maintenance of the same, including legal and accounting services; provided, however, that the term of any contract with a third person for supplying goods or services to the common area or for the Association shall not exceed a term of one (1) year unless a

longer term is approved by a majority of the voting power of each class of members of the Association, or after conversion of the Class B membership to Class A membership, unless such longer term is approved by a majority of the voting power of members of the Association, as well as a majority of the voting power of members of the Association other than Declarant with the following exceptions:

- (1) a contract with a public or private utility company for materials or services, may exceed a term of one (1) year so long as it does not exceed the shortest term for which the utility will contract at a regulated rate.
- (2) a contract for prepaid casualty and/or liability insurance policies may be for a term of not to exceed three (3) years, provided that the policy permits short rate cancellation by the Association.
- (3) a management contract, the terms of which have been approved by the Federal Housing Administration or Veterans Administration may exceed a term of one (1) year.
- (4) an agreement for cable television services and equipment or satellite television services and equipment of not to exceed five (5) years duration provided that the supplier is not an entity in which the subdivider has a direct or indirect ownership interest of 10 percent or more.
- (5) an agreement for sale or lease of burglar alarm equipment, installation and services of not to exceed five (5) years duration provided that the supplier or suppliers are not entities in which the subdivider has a direct or indirect ownership interest of 10 percent or more.
- (6) a contract for a term not to exceed three (3) years that is terminable by the Association after no longer than one (1) year without cause, penalty or other obligation upon ninety (90) days written notice of termination to the other party.

Anything contained herein to the contrary notwithstanding, any agreement for management of the common area and any other contract providing for services by the Declarant, shall be terminable for cause upon thirty (30) days written notice, and without cause or payment of a termination fee upon ninety (90) days, or fewer, written notice and shall have a term of not more than three (3) years, renewable with the consent of the Association

- e. Declare the office of a member of the Board of Directors to be vacant in the event such member shall be absent from three (3) consecutive regular meetings of the Board of Directors;
- f. Employ a manager, independent contractor, or other such employees as they deem necessary and to prescribe their duties;
- g. Pay all real and personal property taxes and assessments which are or would become a lien on the common area or the property of the Association;
- h. Pay for reconstruction of any portion or portions of the common area damaged or destroyed which are to be rebuilt;
- i. Delegate its duties;
- j. Enter onto any lot when necessary in connection with the maintenance or construction for which the Association is responsible or in the event of emergencies. Upon consent of the owners, which consent shall not be unreasonably withheld, the Association or the agents may enter a residence to perform maintenance, repairs, or construction for which the Association is responsible. Such entry shall be made with as little inconvenience to the owners as reasonably possible, and any damage caused thereby shall be repaired by the Association.
- k. Prosecute or defend, in the name of the Association, any action affecting or relating to the common area owned by the Association, and any action in which all or substantially all of the owners have an interest.
- l. Upon the written request of the holder of any first mortgage encumbering any lot, to notify the same in writing of any default specified in the Declaration, by the owner of such lot in the

performance of owner's obligations, which is not cured within thirty (30) days. In addition, upon the written request of the holder of any first mortgage, to give timely written notice to such first Mortgagees of any substantial damage to or destruction of any lot, or any part of the common area and, if any lot, or any portion thereof, or of the common area, or any portion thereof, is made the subject of any condemnation or eminent domain proceeding or is otherwise sought to be acquired by a condemning authority, to give timely written notice to such first Mortgagees of any such proceeding or proposed acquisition.

- m. To cause to be prepared a proforma operating statement (budget) for the Association to be prepared for the second and each succeeding fiscal year of the Association; a copy of which shall be distributed personally or by mail to each of the members of the Association not less than forty-five (45) days nor more than sixty (60) days prior to the beginning of the fiscal year to which the budget relates.
- n. The Board shall not take any of the following actions except with a vote or written assent of two-thirds (2/3) of the total voting power of the Association as well as the vote or written assent of two-thirds (2/3) of the voting power of the Association other than Declarant, or of each class of members if there be more than one:
 - (1) Incurring aggregate expenditures or 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 the fiscal year.
 - (2) 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 the fiscal year.
 - (3) Paying compensation to members of the Board of Directors or to officers of the Association for services performed in the conduct of the Association's business provided, however, that the Board may cause a member or officer to be reimbursed for expenses incurred in carrying on the business of the Association.
 - (4) Filling of a vacancy on the Board of Directors created by the removal of a Board of Directors' member.

Section 3. **Personal Liability:** No member of the Board, or of any committee of the Association, or any officer of the Association, or any manager or Declarant, or any agent of Declarant, shall be personally liable to any owner or to any other party, including the Association, for any damage, loss or prejudice suffered or claimed on the account of any act, omission, error or negligence of any such person or entity if such person or entity has, on the basis of such information as may be possessed by him or it, acted in good faith without willful or intentional misconduct.

Section 4. **Duties:** It shall be the duty of the Board of Directors to:

- a. Records: cause to be kept a complete record of all its acts, 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 Class A members who are entitled to vote.
- b. Supervise: supervise all officers, agents and employees of the Association, and see that their duties are properly performed.
- c. as more fully provided in the Declaration to:
 - (1) Fix Assessments: fix the amount of the annual assessment against each lot at least forty-five (45) days in advance of each annual assessment;
 - (2) Levy Special Assessments: levy special assessments for the purpose of defraying the common expenses of the Association for a given fiscal year.
 - (3) Notice of Assessment: send written notice of each assessment to every owner subject thereto at least thirty (30) days in advance of each annual assessment; and

- (4) Foreclose: foreclose the lien against any property for which assessments are not paid within ninety (90) days after due date or bring an action at law against the owner personally obligated to pay the same.
- d. **Certificate of Payment:** furnish, or cause an appropriate officer to furnish, upon demand by any owner or lender of an owner, a certificate signed by an officer of the Association setting forth whether the assessments on a specified lot have been paid. A properly executed certificate of the Association as to the status of assessments on a lot is binding upon the Association as of the date of its issuance.
- e. **Insurance:** to contract and pay for fire , casualty, liability, fidelity and other insurance adequately, insuring the Association and owners with respect to the common area and the affairs of the Association, which shall include bonding of the members of any management body. Fidelity insurance shall be in the form of a bond in an amount equal to three months of the Association's assessments plus reserves, which names the Association as obligee .and protects against misuse and misappropriation of Association property by members of the Board, officers and employees of the Association and any management agent and his employees whether or not any such persons are compensated for their services.
- f. **Bond:** cause all officers or employees having fiscal responsibilities to be bonded, as it may deem appropriate;
- g. **Maintenance:** cause the common area to be maintained in a first class condition of repair and maintenance, satisfactory to the Board of Directors of the Association;

Section 5. **Management Agent:** The Board of Directors shall have the right, but not the obligation to employ for the Association an independent professional management agent at a compensation established by the Board to perform such duties and services as the Board shall authorize, including, but not limited to the duties listed in Section 4 of this Article.

Section 6. **Election:**

- a. **Term of Office:** Except as provided below for directors elected at the annual meeting where directors are first elected for staggered terms, the term of office of each director shall be two (2) years. At the annual meeting where directors are first elected for staggered terms, the members shall elect one group of three (3) directors whose initial term of office shall be two (2) years and another group of two (2) directors whose initial term of office shall be one (1) year. The three (3) persons receiving the largest number of votes shall be elected to two (2) year terms. All positions on the Board shall be filled at this election. At each annual meeting thereafter, the members shall elect the number of directors whose terms are then expiring for two (2) year terms. If any annual meeting is not held or the directors are not elected thereat, the directors maybe elected at any special meeting of members held for that purpose. The directors shall hold office until their respective successors have been elected and hold their first meeting.
- b. **Nomination:** Nomination for election to the Board of Directors shall be made by a nominating committee which must consist of members. Nominations may also be made from the floor at an annual meeting by members. The nominating committee shall be appointed by the Board of Directors prior to each annual meeting of the members, to serve from the close of such annual meeting until the close of next annual meeting and such appointment shall be announced at each 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 to be filled.
- c. **Election:** Election to the Board of Directors shall be by secret written ballot. At such election, members or their proxies may cast, in respect to each vacancy, as many votes as they are entitled to exercise under the provisions of the Declaration. From the first election of the Board and so long thereafter as a majority of the voting power resides in the . Declarant or so long as there are two (2) outstanding classes of membership, not less than twenty percent (20%) of the incumbents on the Board shall be elected solely by the votes of owners other than the Declarant.

- d. **Vacancies:** Vacancies on the Board of Directors caused by any reason other than the removal of a director by a vote of the Association 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 at the next annual meeting of the Association or at a special meeting called for that purpose. The Association members may at any time at a duly noticed meeting called for that purpose, elect directors to fill any vacancy not filled by the directors, and may elect the additional directors at the meeting at which an amendment of these Bylaws is voted, authorizing an increase in the number of directors.

If any director tenders his resignation to the Board, the Board shall have the power to elect a successor to take office at such time as the resignation shall become effective. No reduction of the number of directors shall have the effect of removing .any director prior to the expiration of his term of office.

- Section 8. **Removal of Directors:** At any regular or special meeting of Association members duly called, any one (1) or more of the directors may be removed with cause by a majority of the Association members and a successor may then and there be elected to fill the vacancy thus created (by cumulative voting as provided in Article II, Section 4) . Any director whose removal has been proposed by the members of the Association shall be given an opportunity to be heard at the meeting. Provided however, unless the entire Board is removed, no individual director shall be removed prior to the expiration of his term of office if the votes cast against removal would be sufficient to elect the director if voted cumulatively at an election at which the same total number of votes were cast and the entire number of Board members authorized at the time of the most recent election of the Board were then being elected. Thus, if the total votes cast against removal exceeds the quotient arrived by dividing the total votes cast by the total authorized number of directors plus one, any such director elected to office solely by the votes of members other than Declarant may be removed from office prior to the expiration of his term only upon the vote of a simple majority of the total voting power of the Association as well as the vote of a simple majority of the voting power of Association members other than the Declarant.
- Section 9. **Organization meeting:** The first meeting of a newly elected Board of Directors shall be held within ten (10) days of election at such place as shall be fixed by the directors at the meeting at which such directors were elected. Notice of such meeting is hereby dispensed with.
- Section 10. **Regular Meetings:** Regular meetings of the Board of Directors shall be held not less than quarterly at a time and place within the Project as shall be determined by the directors from time to time. If the Board of Directors determines that a larger meeting room is required than exists within the Project, a meeting room may be selected as close as possible to the Project. Notice of the time and place for regular meetings of the Board of Directors shall be posted at a prominent place or places in the common area and shall be communicated to the directors not less than four (4) days prior to the meeting; provided, however, that notice of a meeting need not be given to any director who has signed a waiver of notice or a written consent to holding of the meeting. Should said meeting fall upon a legal holiday, that meeting shall be held at the same time on the next day which is not a legal holiday.
- Section 11. **Special Meetings:** Special meetings of the Board for any purpose shall be called at any time by the President, or by any two (2) directors other than the President. Written notice of the time and place of special meetings and the nature of any special business to be considered shall be posted in the manner prescribed for notice of regular meetings and shall be sent to all directors by first class mail not less than four (4) days prior to the scheduled time of the meeting, or such notice shall be delivered personally or by telegraph or telephone not less than seventy-two (72) hours prior to the scheduled time of the meeting; provided, however, notice of the meeting need not be given to any director who has signed a waiver of notice or a written consent to the holding of the meeting. Regular and special meetings of the Board of Directors shall be open to all members of the Association provided, however, that Association members who are not on the Board of Directors may not participate in any deliberation or discussion unless expressly so authorized by the vote of a majority of a quorum of the Board of Directors. The Board of Directors may, with the approval of a majority of a quorum of its members, adjourn a meeting and reconvene in executive session to discuss and vote upon personnel matters, litigation in which the Association is or may become involved, and orders of business of a

similar nature. Only members of the Board shall be entitled to attend executive sessions. The nature of any and all business to be considered in executive session shall be announced in open session.

Section 12. **Waiver of Notice:** Before or at any special 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 of notice by him of the time and place thereof. If all of the directors are present at any meeting of the Board, no notice shall be required and any business may be transacted at such meeting. All such waivers shall be filed with the corporate records or made a part of the minutes of the meeting. Nothing contained herein or within Article IV, Section 10 regarding waiver of notice shall remove the obligation to post the notice of all directors' meetings within the common area.

Section 13. **Entry of Notice:** Whenever any director has been absent from any special meeting of the Board, an entry in the minutes to the effect that notice has been duly given shall constitute a rebuttable presumption that due notice of such special meeting was given to such director as required by law and these Bylaws.

Section 14. **Board of Directors Quorum:** At all meetings of the Board of Directors, a majority of the directors 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. If, at any meeting of the Board of Directors, there be less than a quorum present, the majority of those present may adjourn the meeting from time to time. Notice of any adjournment of any directors' meeting, either regular or special, to another time and place, shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of adjournment. At any rescheduled meeting, any business which might have been transacted at the meeting as originally called may be transacted without further notice.

Section 15. **Action Without Meeting:** The directors shall have the right to take any action in the absence of a meeting which they could take at a meeting by obtaining the written approval of all of the directors. Any action so approved shall have the same effect as though taken at a meeting of the directors.

If the Board resolves by unanimous written consent to take an action, an explanation of the action so taken shall be given by the Board to the members of the Association within three (3) days after all written consents have been obtained in the manner provided in Article IV, Section 10 for the giving of notice of regular meetings.

Section 16. **Independent Audit, Budgets and Financial Statements:**

1. The Board shall cause financial statements for the Association to be regularly prepared and copies to be distributed to each member of the Association as follows:

a. A proforma operating statement (budget) for each accounting year other than the first accounting year (which shall include a reserve for the repair and replacement of common area) shall be distributed not less than forty five (45) days and not more than sixty (60) days before the beginning of such accounting year of the Association. The budget shall include all of the following:

(1) The estimated revenue 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 Section 1365.5 of the Civil Code, which shall be printed in boldtype 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 major components.

- (ii) The current amount of accumulated cash reserves actually set aside to repair, replace, restore, or maintain major components.
 - (c) The percentage that the amount determined for purposes of subparagraph (2) (b) (ii) is of the amount determined for purposes of subparagraph (2)(b)(i).
 - (3) A statement as to whether the Board of Directors of the Association has determined or anticipates that the levy of one or more special assessments will be required to repair, replace, or restore any major component or to provide adequate reserves thereof.
 - (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.
 - (5) The identification of the estimated remaining life and the methods of funding used to defray the future repair, replacement, or addition to those major components that are attributable to the areas for which the Association is obligated.
- b. A balance sheet as of an accounting date which is the last day of the month closest in time to six months from the date of closing of the first sale of an interest in the Project and an operating statement for the period from the date of the first closing to the said accounting date, shall be distributed within sixty (60) days after the accounting date. The operating statement shall include a schedule of assessments received and receivable identified by the description of the lot and the name of the person or entity assessed.
 - c. An annual report consisting of the following shall be distributed within one hundred twenty (120) days after the close of each fiscal year:
 - (1) A balance sheet as of the end of such accounting year.
 - (2) An operating (income) statement for such accounting year.
 - (3) A statement of changes in financial position for such accounting year.
 - (4) Any information required to be reported under Section 8322 of the California Corporations Code.
 - d. A statement as to the Association's policies and practices in enforcing the lien rights or other remedies for the default in the payment of its assessments against its members shall be delivered within sixty (60) days prior to the beginning of the next fiscal year.
- 2. The annual report referred to in subparagraph c. above shall be prepared by an independent accountant for any accounting year.
 - 3. The Board shall review, at least once every three (3) months in the manner required by California Civil Code Section 1365.5:
 - a. A reconciliation between the records of the Association and the most recent account statement from each financial institution where the Association maintains its operating and/or reserve accounts;
 - b. A comparison between the actual year-to-date reserve revenues and expenditures of the Association for the current fiscal year and the reserve budget for such period; and
 - c. A year-to-date income and expense statement for the operating and reserve accounts of the Association.
 - d. The latest account statements prepared by the financial institutions where the Association has its operating and reserve accounts.
 - 4. The signature of at least two (2) persons, who shall be members of the Association's Board of Directors or, one officer who is not a member of the Board of Directors and a member of the Board of Directors, shall be required for the withdrawal of moneys from the Association's reserve accounts. "Reserve Accounts" shall mean moneys that the Association's Board of Directors has

identified from its annual budget for use to defray the future repair or replacement of, or additions to, those major components which the Association is obligated to maintain. The Board of Directors shall not expend funds designated as reserve funds for any purpose other than:

- a. The repair, restoration, replacement or maintenance of major components for which the Association is obligated and for which the reserve fund was established, or
- b. Litigation involving the purposes set forth in paragraph 4a. above.

Notwithstanding the foregoing, the Board of Directors may authorize the temporary transfer of money from the reserve account to the Association's operating account to meet short term cash flow requirements or other expenses. Any such transferred funds shall be restored to the reserve account within three (3) years of the date of the initial transfer. The Board of Directors shall have the responsibility of exercising prudent fiscal management in delaying restoration of the transferred reserve funds to the reserve account and shall, if necessary, levy a special assessment to recover the full amount of the expended funds within the time limits specified herein.

5. The Association shall be on a calendar fiscal year from January 1 to December 31, and shall maintain its books on a cash basis.

Section 17. **Reserve Study Requirements:** At least once every three years, the Board of Directors shall cause a study to be conducted of the reserve account requirements, if the current replacement value of the major components which the Association is obligated to repair, replace, restore or maintain is equal to or greater than one-half of the gross budget for any fiscal year. For purposes of this subsection, the term "reserve account requirements" means the estimated funds which the Association's Board of Directors has determined are required to be available at a specified point in time to repair, replace or restore those major components which the Association is obligated to maintain. The Board of Directors shall annually review the reserve account study and shall consider and implement necessary adjustments to its analysis of the reserve account requirements as a result of that review. The reserve account study shall include, at a minimum:

- a. Identification of the major components which the Association is obligated to repair, replace, restore or maintain which, as of the date of the study, have a remaining useful life of less than 30 years.
- b. Identification of the probably remaining useful life of the components identified in paragraph a. above as of the date of the study.
- c. An estimate of the cost of repair, replacement, restoration or maintenance of each major component identified in paragraph a. above during and at the end of its useful life.
- d. An estimate of the total annual contribution necessary to defray the cost to repair, replace, restore or maintain each major component during and at the end of its useful life, after subtracting total reserve funds as of the date of the study.

Section 18. **Place of Board Meetings:** All meetings of the Board, whether organizational, regular or special, shall be held within the Project unless the Board of Directors determines that a larger meeting room is required than exists within the Project, a meeting room may be selected as close as possible to the Project.

ARTICLE V

OFFICERS AND THEIR DUTIES

Section 1. **Enumeration of Officers:** The officers of this Association shall be a President and Vice-President, who shall at all times be members of the Board of Directors, a Secretary and a Chief Financial Officer, and such other officers as the Board may from time to time by resolution create, who, other than the President and Vice-President, need not be members of the Board of Directors.

- Section 2. **Election of Officers:** The election of officers shall take place at the first meeting of the Board of Directors following each annual meeting of the members.
- Section 3. **Term:** The officers of the Association 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.
- Section 4. **Special Appointments:** The Board may elect such other officers as the affairs of the Association may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws or as the Board may, from time to time, determine.
- Section 5. **Resignation and Removal:** Any officer may be removed from office with cause by a majority of the directors at the time in office. 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 resignations shall not be necessary to make it effective.
- Section 6. **Vacancies:** A vacancy in any office may be filled by appointment by the Board. The officer appointed to such vacancy shall serve for the remainder of the term of the officer he replaces.
- Section 7. **Multiple Offices:** The offices of Secretary and Chief Financial Officer may be held by the same person. No person shall simultaneously hold more than one of any of the other offices except in the case of special officers created pursuant to Section 4 of this Article.
- Section 8. **Duties:** The duties of the officers are as follows:
- a. **President:** The President shall be the chief executive officer of the Association, and subject to the control of the Board, have general supervision, direction and control of the business and officers of the Association. He shall preside at all meetings of the members and at all meetings of the Board. He shall be an ex-officio member of all standing committees and shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the Board or by these Bylaws. The President shall sign all leases, mortgages, deeds and other written instruments and shall co-sign all promissory notes of the Association.
 - b. **Vice-President:** In the absence or disability of the President, the Vice-President shall perform all the duties of the President, and when so acting shall have all powers of and be subject to all restrictions upon the President. The Vice-President shall have such other powers and perform such other duties as from time to time may be prescribed for him by the Board or by these Bylaws.
 - c. **Secretary:** The Secretary shall keep, or cause to be kept, a book of minutes at the principal office or such other place as the Board may order, of all meetings of directors and members, with the time and place of holding whether regular or special and if special how authorized, the notice thereof given, the names of those present at the directors' meetings, the number of memberships present or represented at members' meetings and the proceedings thereof.

The Secretary shall give, or cause to be given, notice of all the meetings of members and of the Board required by these Bylaws or by law to be given, and he shall have such other powers and perform such other duties as may be prescribed by the Board or these Bylaws.
 - d. **Chief Financial Officer:** The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the Association, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital and surplus. The books of accounts shall at all times be open to inspection by any director.

Unless the Board authorizes more stringent requirements, any check or other negotiable instrument issued by the Association shall require the joint signatures of any two of the following officers: President, Chief Financial Officer and the Secretary, provided that under all circumstances the withdrawal of any money from the Association's reserve accounts shall require the signatures of at least two people who shall either be both directors or shall be one director and one officer who is not a director. For all purposes herein, the term "reserve accounts" shall mean money that the Board has identified from its annual budget for use to defray the future repair,

replacement or addition to those major structures or improvements which the Association is obligated to maintain and repair.

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

Section 9. **Non-liability of Officers and Directors:** No officer or director of the Association shall be liable for acts or defaults of any other officer or member or for any loss sustained by the Association, or any member thereof, unless the same has resulted from his own willful and wanton misconduct or negligence. Every officer, director and member of the Association shall be indemnified by the Association against all reasonable costs, expenses, and liabilities (including attorneys fees and court costs) actually and necessarily incurred by or imposed upon him in connection with any claim, action, suit, proceedings, investigation or inquiry of whatever nature, in which he may be involved as a part or otherwise by reason of him having been an officer, director or member of the Association, whether or not he continues to be such officer, director or member of the Association, at the time of the incurring or imposition of such costs, expenses, or liabilities, except in relation to matters as to which he is liable for willful misconduct or negligence toward the Association in the performance of his duties. The foregoing right of indemnification shall be in addition to and not in limitation of all rights, and shall inure to the benefit of the legal representatives of such person.

Section 10. **Fidelity Bonds:** All officers and employees of the Association handling or responsible for any funds received or collected by the Association may be required to furnish adequate fidelity bonds. The premiums on said bonds shall be paid by the Association as an Association expense.

ARTICLE VI

COMMITTEES

The Association shall appoint an Architectural Control Committee, as provided in the Declaration, and a Nominating Committee, as provided in these Bylaws. In addition, the Board of Directors shall appoint other committees as deemed appropriate in carrying out its purpose. No two members of the same household may serve on the same committee. The Architectural Control Committee and the Nominating Committee shall both be chaired by a member of the Board of Directors.

ARTICLE VII

BOOKS AND RECORDS

The original or a copy of these Bylaws as amended to date, a current copy of the Declaration, the Articles, the membership register, books of account, and minutes of meetings . of the members, of the Board of Directors, and of committees of the Board of Directors of the Association shall be made available for inspection and copying to any owner of a lot or his duly appointed representative, any first mortgagee, and the holders, insurers and guarantors, at any reasonable time, at the office of the Association or at such other place within the subdivision as the Board of Directors shall prescribe.

Minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes, of any meeting of the Board of Directors, other than an executive session, shall be available to members within thirty (30) days of the meeting and shall be distributed to only members upon request and payment of the fee prescribed in paragraph a. (3) below.

- a. The Board of Directors shall establish reasonable rules with respect to:

- (1) Notice to be given to the custodian of the records by the member or Mortgagee 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.
- b. Any director shall have the absolute right at any reasonable time to inspect all books, records, and documents of the Association and the physical properties owned or controlled by the Association. The right of inspection by a director includes the right to make extracts and copies of documents.
- c. Commencing not later than ninety (90) days after the close of escrow of the first lot in the Project, and ninety (90) days after the annexation of additional phases to the Project, copies of the documents listed below, as soon as readily obtainable, shall be delivered by the Declarant to the Board of Directors of the Association at the office of the Association, or at such other place as the Board of Directors of the Association shall prescribe. The obligation to deliver the documents listed below shall apply to any documents obtained by the Declarant no matter when obtained, provided, however, such obligation shall terminate upon the earlier of (1) the conveyance of the last lot covered by a subdivision public report or (2) three years after the expiration of the most recent public report, on the Project:
- (1) The recorded subdivision map or maps for the Project.
 - (2) The deeds and easements executed by the subdivider conveying the common area or other interest to the Association.
 - (3) The recorded Declaration for the subdivision, including all amendments and annexations thereto.
 - (4) The Association's filed Articles of Incorporation, and all amendments thereto.
 - (5) The Association's Bylaws and all amendments thereto.
 - (6) All architectural guidelines and all other rules regulating the use of an owner's interest in the subdivision or use of the common area which have been promulgated by the Association.
 - (7) The plans approved by the County of San Luis Obispo for the construction or improvement of facilities that the Association is obligated to maintain or repair; provided, however, that the plans need not be as-built plans and that the plans may bear appropriate restrictions on their commercial exploitation or use and may contain appropriate disclaimers regarding their accuracy.
 - (8) All notice of completion certificates issued for common area improvements (other than residential structures).
 - (9) Any bond or other security device in which the Association is the beneficiary.
 - (10) Any written warranty being transferred to the Association for common area equipment, fixtures or improvements.
 - (11) Any insurance policy procured for the benefit of the Association, its Board of Directors or the common area.
 - (12) Any lease or contract to which the Association is a party.
 - (13) The membership register, including mailing addresses and telephone numbers, books of account and minutes of meetings of the members, of the Board of Directors and of committees of the Board of Directors of the Association.
 - (14) Any instrument referred to in Section 11018.6(d) of the California Business and Professions Code, but not described above, which establishes or defines the common, mutual or reciprocal rights or responsibilities of members of the Association.

ARTICLE VIII

ASSESSMENTS

As more fully provided in the Declaration, each member is obligated to pay to the Association annual and special assessments which are secured by a continuing lien upon the property against which the assessment is made. Any assessments which are not paid when due shall be delinquent. If the assessment is not paid within thirty (30) days after the due date, the assessment shall bear interest from the date of delinquency as more particularly set forth in the Declaration. The Association may bring an action at law against the owner personally obligated to pay the same or foreclose the lien against the property, and interest, costs, and reasonable attorneys fees of such action shall be added to the amount of such assessment. No owner may waive or otherwise escape liability for the assessments provided for herein by nonuse of the common area or abandonment of his lot.

ARTICLE IX

CORPORATE SEAL

The Association shall have a seal in circular form having within its circumference the words SPANISH LAKES HOMEOWNERS ASSOCIATION, State of California, 1999.

ARTICLE X

AMENDMENTS

These Bylaws may be amended or repealed at a regular or special meeting of the members, by the vote or written consent of two-thirds (2/3) of the voting members present in person or by proxy, representing each class of membership so long as a two (2) class voting structure remains in effect. If the two (2) class voting structure is not in effect, these Bylaws may be amended or repealed by the vote of members entitled to exercise two-thirds (2/3) of the voting power of the Association and two-thirds (2/3) of the voting power of members of the Association other than Declarant. Anything herein stated to the contrary notwithstanding, no material amendment to the Bylaws shall be made without the prior written approval of the Mortgagees holding seventy-five percent (75%) of the first mortgages encumbering lots.

The Articles of Incorporation for Spanish Lakes Homeowners Association may be amended only by the affirmative vote (in person or by proxy) or written consent of a majority of the Board of Directors of the Association and by the affirmative vote (in person or by proxy) or written consent of members representing a majority of the voting power of the Association which shall include a majority of the votes of members other than the Declarant, or where the two (2) class voting structure is still in effect (as provided by these Bylaws), a majority of the voting power of each class of membership.

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

ARTICLE XI

SEVERABILITY

In the case any of these Bylaws conflict with any provisions of the laws of the State of California, such conflicting Bylaws shall be null and void upon final court determination to such effect, but all other Bylaws shall remain in full force and effect.

ARTICLE XII

MISCELLANEOUS

The fiscal year of the Association shall begin on the first day of January and end of the thirty-first day of December of every year, except that the first fiscal year shall begin on the date of incorporation.

ARTICLE XIII

ALTERNATIVE DISPUTE RESOLUTION

The Board of Directors shall be authorized to perform any act reasonably necessary to resolve any civil claim or action through alternative dispute resolution proceedings as prescribed under Civil Code Section 1354 including, but not limited to, mediation, binding arbitration, or non-binding arbitration proceedings.

The Board of Directors shall provide, or in good faith attempt to provide, one hundred twenty (120) days advance notice of the Board of Directors' intention to initiate the prosecution of any civil action and of the nature and basis of the claim to every member of the Association and every entity or person who is a prospective party to the civil action, provided that notice can be given more than one hundred twenty (120) days prior to the expiration of any pertinent statute of limitations, and without prejudice to the Association's right to enforce the Project Declaration or the Association Bylaws, and further provided that no such notice need be given prior to the filing of an action in small claims court or an action solely to enforce assessment obligations.

Prior to initiating the prosecution of a civil action solely for declaratory relief or injunctive relief to enforce the Project Declaration or the Association Bylaws, or for declaratory relief or injunctive relief to enforce the Project Declaration or Association Bylaws in conjunction with a claim for monetary damages not in excess of five thousand dollars (05,000.00), the Board of Directors shall endeavor to submit the matter to alternative dispute resolution in compliance with the provisions of Section 1354(b) of the California Civil Code.

Immediately after initiating the prosecution or defense of any civil action, the Board of Directors shall make a reasonable effort, in good faith, to meet and confer with every person who is a party concerning:

- a. Appropriate processes for resolving the civil action, including available alternative dispute resolution proceedings;
- b. Appropriate processes for avoiding or reducing costs or losses by the parties associated with the action;
- c. Providing an opportunity to cure any alleged defect in common areas or facilities which is the basis for the action; and
- d. Providing for the scope of discovery, if any, to be conducted prior to the inception of any alternative dispute resolution procedure.

The Board of Directors shall consider diversion of the prosecution or defense of any civil action to alternative dispute resolution proceedings such as mediation, non-binding arbitration, or binding arbitration and shall participate fully and in good faith in the resolution of any civil action through such alternative dispute resolution proceedings. All costs reasonably incurred by the Association on account of the alternative dispute resolution proceedings shall be authorized for payment by the Board of Directors. Nothing contained herein shall be construed as to require the Board of Directors, as a prerequisite to initiating any civil action, to conduct inspections, maintain inspection records, exhaust applicable casualty insurance coverage maintained by the Association, provide an opportunity to cure, meet with members or obtain the consent of the members of the Association and, except in compliance with the provisions of Section 1354 (b) of the California Civil Code, to submit civil claims of any kind to binding or non-binding alternative dispute resolution procedures.

ARTICLE XIV

ENFORCEMENT

Any owner shall have the right, but not the obligation, to enforce, by any proceeding at law or in equity, all provisions of these Bylaws, and in such action shall be entitled to recover reasonable attorneys' fees and costs. Failure by any owner to enforce any provision of these Bylaws herein contained shall in no event be deemed a waiver of the right to do so thereafter.

ARTICLE XV

INDEMNIFICATION

Each owner, by acceptance of his deed, agrees personally and for family members, contract purchasers, tenants, guests and invitees to indemnify each and every other owner, Declarant and the Association, and to hold them harmless from, and to defend against any claim of any person for personal injury or property damage occurring within the lot boundary of that particular owner.

ARTICLE XVI

NUMBER; GENDER

The singular and plural number and masculine, feminine and neuter gender shall each include the other where the context so requires.

ARTICLE XVII

ATTORNEYS FEES

In any action or proceeding whatsoever arising from rights or obligations established hereunder, including, but not limited to, actions for damages resulting from a breach or threatened breach of these Bylaws or actions for specific performance hereof, the prevailing party shall be entitled to recover *such reasonable sums for its attorneys fees and costs as shall be fixed by the Court, either in the subject action or in a separate action.

CERTIFICATE OF SECRETARY I, the undersigned, do hereby certify that:

I am the duly elected and acting Secretary of Spanish Lakes Homeowners Association, a California non-profit mutual benefit corporation.

The foregoing Bylaws comprising twenty-six (27) pages, including this page, constitute the Bylaws of the Corporation duly adopted at the meeting of the Board of Directors thereof duly held on _____, 199_.

IN WITNESS WHEREOF, I have hereunto subscribed my name this ___day of 199__.