

170  
BY-LAWS  
OF  
SOUTH COAST SHORES HOMEOWNERS ASSOCIATION

ARTICLE I: DEFINITIONS: All terms as used in these By-Laws shall, unless stated otherwise, be defined as set forth in that certain Declaration of Covenants, Conditions and Restrictions for Tract No. 7711, recorded as Instrument No. 12415, Book 10642, pages 916-947, Official Records of Orange County, California (The "Declaration") and any amendments thereto. All of the terms and provisions of the Declaration and any amendments thereto are hereby incorporated herein by reference.

ARTICLE II: PRINCIPAL OFFICE: The principal office for the transaction of the business of the Association is hereby fixed and located within the County of Orange, State of California. The Board is hereby granted full power and authority to change said principal office from one location to another within said Orange County.

ARTICLE III: Section 1. MEMBERSHIP: Every person or entity who is a record owner of a fee interest in any Lot which is subject under the declaration to assessment by the Association, including:

1. Contract purchasers whose land sale contract has been recorded in the books and records of the Orange County, California Records Office and who are in possession of the Lot.

2. The beneficiary or trustee of a Trust, whoever is in possession of said Lot, which trust is the record owner as evidenced by recording in the books and records of the Orange County, California Records Office.

3. The spouse of a record owner who is in sole or joint possession of said Lot.

Ownership of such Lot as herein described above shall be the sole qualification for membership. Membership shall be appurtenant to and may not be separated from ownership of the Lot which gives rise to such membership. Transfer of the ownership in any Lot shall automatically transfer membership in the association and all rights of the transferor with respect to the common area.

Section 2. TERMINATION OF MEMBERSHIP: Membership in the Association shall automatically terminate when such Member sells and transfers his Lot.

Section 3. PLURAL MEMBERSHIPS: A Member may not own more than one membership in the Association, but a Member shall have one vote for each Lot owned, as set forth in the Declaration.

Section 4: ASSESSMENTS: The Members shall be jointly, severally and personally liable for the payment of such assessments as may from time to time be fixed and levied by the Board pursuant to the provisions of the Declaration. Should any Member fail to pay his assessments before delinquency, the Association, at the discretion of the Board, shall have the right to suspend the voting rights and easements of use and enjoyment of the Common Area of such Member, subject to the procedural safeguards established under Section 5 of this Article, for any period during which the payment of any such Member's assessment remains delinquent.

Section 5: ASSOCIATION RULES ENFORCEMENT. The Board shall have the power to adopt, amend, and repeal such rules and regulations as it deems reasonable which may include the establishment of a system of fines and penalties enforceable as a reimbursement assessment pursuant to the Declaration. Any such disciplinary action by the Board shall satisfy the minimum requirements of Section 7341 of the Corporations Code before a decision to impose disciplinary action is reached with respect to the accused Member. In addition, said rules and regulations shall provide

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that no fine penalty shall be levied without the following procedural safeguards:

(a) A written statement of the alleged violations shall be provided to any Member against whom such charges are made and such written statement shall provide a date on which the charges shall be heard.

(b) No proceedings under this Section shall be brought against any Member unless that Member shall have received a written statement of charges at least thirty (30) days prior to that hearing.

(c) No proceedings shall be brought against any Member more than sixty (60) days after such Member is provided a written statement of charges.

(d) The Board shall appoint a panel of three (3) capable persons (one of whom shall be designated a chairperson), and at least two (2) of whom must be Board members and who shall hear the charges and evaluate the evidence of the alleged violation.

(e) At such hearing, the Member so charged shall have the right to present oral and written evidence and to confront and cross-examine adverse witnesses.

(f) The panel shall deliver to the Member so charged within seven (7) days after the hearing a written decision which specifies the fines or penalties levied, if any, and the reason thereof.

(g) In the event that a Member shall correct an alleged violation prior to the hearing date, the Board shall discontinue the proceedings.

#### ARTICLE IV: MEETINGS OF MEMBERS:

Section 1: PLACE OF MEETINGS: All meetings of Members shall be held at the Properties or as close thereto as possible, from time to time by resolution of the Board.

Section 2: ANNUAL MEETINGS: The annual meeting of the Members shall be held in Orange County on September 12th of each year, at such a reasonable hour as may be established by the Board, provided, however, that the Board by resolution may fix a date for the meeting no more than thirty (30) days before or after said date. If the day for the annual meeting of the Members is a legal holiday, the meeting will be held at the same hour on the first day following which is not a legal holiday.

Section 3: SPECIAL MEETINGS: Special meetings of the Members shall be promptly called by the Board upon either (1) the vote of the Board, (2) the President of the Association, or (3) written request thereof signed by Members representing at least twenty-five (25%) percent of the total voting power of the Association.

Section 4: NOTICE OF MEETINGS: Written Notice of meetings, annual or special, shall be given to each Member entitled to vote, either personally or by sending a copy of the notice through the first class mail, postage prepaid, to his address appearing on the books of the Association, or supplied by him to the Association for the purpose of notice. All such notices shall be sent to each Member entitled thereto not less than ten (10) days or more than sixty (60) days before each meeting, and shall specify the place, the day, and the hour of such meeting, and (1) in the case of special meetings, the general nature of the business to be transacted and no other business may be transacted, or (2) in the case of regular meetings,

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those matters which the Board, at the time of giving the notice, intends to present for action by the Members. Any approval of the Members required by Sections 7222, 7224, 7233, 7812 or 8719 of the California Corporations Code, other than unanimous approval by those entitled to vote, shall be valid only if the general nature of the proposal so approved was stated in the notice of the meeting. When any meeting of Members, either annual or special, is adjourned for thirty (30) days or more, notice of the time and place of the adjourned meeting shall be given as in the case of an original meeting. Except as aforesaid, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting other than by announcement thereof at the meeting at which such adjournment is taken.

Section 5: QUORUM: The presence at the meeting of Members entitled to cast, or of proxies entitled to cast fifty-one (51%) percent of the voting power shall constitute a quorum for any action except as otherwise provided in the Articles, the Declaration, or these By-Laws. If a quorum is not present, the Members present, either in person or by proxy, may adjourn the meeting to a time not less than ten (10) days or more than thirty (30) days from the time the original meeting was called. Notice of the time and place of the adjourned meeting shall be given in the manner prescribed for all meetings, annual or special. Except where a greater portion of the voting power is required by the Articles, the Declaration, or these By-Laws a majority of the voting power present, in person or by proxy, shall prevail at all meetings.

Section 6: PROXIES: Every Member entitled to vote or execute consents shall have the right to do so either in person, or by an agent or agents authorized by a written proxy executed by such Member or his duly authorized agent and filed with the Secretary of the Association. A validly executed proxy that does not state that it is irrevocable shall continue in full force and effect unless (1) revoked by the Member executing it prior to the vote pursuant thereto, or (2) written notice of the death or incapacity of the maker of the proxy is received by the Association before the vote pursuant thereto is counted; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from date of the proxy, unless otherwise provided in the proxy, except that the maximum term of any proxy shall not exceed three (3) years from the date of execution. Anything to the contrary notwithstanding, any revocable proxy covering matters requiring a vote of the Members pursuant to Sections 7222, 7224, 7233, 7613(f)(1), 7812, 7911(a)(2), 8012, 8015(a), 8610 or 8719(a) of the California Corporations Code is not valid as to such matters unless it sets forth the general nature of the matter to be voted on.

Section 7: FORM OF SOLICITED PROXIES: Any form of proxy distributed to ten (10) or more Members shall afford an opportunity on the proxy to specify a choice between approval and disapproval of each matter or group of related matters intended, at the time the proxy is distributed, to be acted upon at the meeting for which the proxy is solicited, and shall provide, subject to reasonable specified conditions, that where the persons solicited specifies a choice with respect to any such matter the vote shall be cast in accordance therewith. In any election of Directors, any form of proxy in which the Directors to be voted upon are named therein as candidates and which is marked by a Member "withhold" or otherwise marked in a manner indicating that the authority to vote for the election of Directors is withheld, shall not be voted either for or against the election of a Director. Failure to comply with the paragraph shall not invalidate any Association action taken, but may be the basis for challenging any proxy at a meeting and the Superior Court may compel compliance therewith at the suit of any Member.

Section 8: ACTION WITHOUT MEETING: Any action which may be taken by the vote of the Members at a regular or special meeting, except the election of members of the Board where cumulative voting is a requirement, may be taken without a meeting, if done in compliance with the provisions of Section 7513 of the Corporation Code.

ARTICLE V: BOARD OF DIRECTORS:

Section 1: NUMBER: The affairs of the Association shall be managed by a Board of Seven (7) Directors, who shall be members of the Association in residence at South Coast Shores.

Section 2: ELECTION: At the annual meeting of the Association in even-numbered years, the Members shall elect four (4) Directors, and in odd-numbered years they shall elect three (3) Directors, each for a term of two (2) years, to succeed those Directors whose terms have expired.

Section 3: NOMINATION OF DIRECTORS: Nomination for the office of a Member of the Board of Directors shall be made by a Nominating Committee consisting of a chairman, who shall be a Member of the Board of Directors, one other Board Member and one (1) or more Members of the Association, all of whom shall be appointed by newly constituted Board of Directors at the conclusion of the annual meeting of the Members, to serve from the close of such annual meeting until the next annual meeting. The Nominating Committee shall make as many nominations for the annual meeting or to fill vacancies created by death or resignation 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. Nominations may also be made by Members from the floor at the annual meeting or such other meeting at which Members of the Board of Directors are to be elected. Such nominations may be made from among members of the Association only.

Section 4: ELECTION PROCEDURES: Election to the Board of Directors shall be by secret written ballot. At such election, the Members or other proxies may cast, in respect to each vacancy, as many votes as they are entitled to exercise under the provisions of the Declaration. The person(s) receiving the largest number of votes shall be elected. Cumulative voting is required in all elections for the Board of Directors in which more than two positions are to be filled provided that no Member shall be entitled to cumulative votes for a candidate or candidates unless such candidate's name or candidates' names have been placed in nomination prior to the voting.

Section 5: REMOVAL: Any Directors may be removed from the Board, with or without cause, by a majority vote of the Members of the Association. However, unless the entire Board is removed from office by the vote of Members of the Association, an individual Director shall not be removed prior to the expiration of his term of office if the number of votes cast against removal would be sufficient to elect the Director if voted cumulatively at an election in which the same number of votes were cast and the entire number of Directors authorized at the time of the most recent election of Directors was then being elected. In the event of death or resignation of a Director, his successor shall be elected by the remaining Members of the Board, and shall serve until the next annual meeting at which Directors are elected. At such meeting to fill a vacancy or vacancies, the Board shall choose from candidates chosen by the Nominating Committee and any candidates nominated by members from the floor. In the event of removal of a Director, his successor shall be elected by the Members of the Association.

Section 6: VACANCIES: Vacancies on the Board, except vacancies arising from removal of a Director, may be filled by a vote of a majority of the remaining Directors, though less than a quorum in the manner defined in Article V, Section 5, and each Director so elected shall hold office until his successor is elected at the next annual meeting of Members, or at a special meeting called for that purpose. A vacancy or vacancies shall be deemed to exist in case of the death, resignation or removal of any Director. If the Members shall increase the authorized number of

Directors, but fail to elect the additional Directors as provided for at the meeting at which such increase is authorized, or at an adjournment thereof, or in case the Members fail to at any time elect the full number of authorized Directors, a vacancy or vacancies shall be deemed to exist. The Members may at any time 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 the By-Laws 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. 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 7: REGULAR MEETINGS: Regular meetings of the Board of Directors shall be held monthly without notice at such place and hour within the Properties as may be fixed from time to time by resolution of the Board. However, such meetings may be conducted as infrequently as every six (6) months if the business to be transacted by the Board of Directors does not justify more frequent meetings. Notice of time and place of such extended meetings shall be posted at a prominent place or placed within the Common Area and shall be communicated to Board Members not less than three (3) days prior to the meeting, provided, however, that notice of a meeting need not be given to any Board Member who has signed a waiver of notice or written consent to the holding of the meeting. In the event a Director misses three (3) consecutive regular meetings of the Board of Directors, his office shall be considered vacant by resignation.

Section 8: SPECIAL MEETINGS: Special meetings of the Board of Directors may be called by written notice signed by the President of the Association, or by two (2) Directors other than the President, after not less than seventy-two (72) hours notice to each Director. 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 sent to all members of the Board of Directors and posted at a prominent place in the Common Area not less than seventy-two (72) hours prior to the scheduled time of the meeting; provided, however, that notice of the meeting need not be given to any Board Member who signed a waiver of notice or a written consent to holding the meeting.

Section 9: QUORUM: A majority of the number of Directors as fixed by the Articles of these By-Laws shall be necessary to constitute a quorum for the transaction of business, except to adjourn as hereinafter provided. Every act or decision made or done by a majority of the Directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board.

Section 10: ATTENDANCE AT MEETINGS: 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 governing body 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.

Section 11: ADJOURNMENT OF MEETINGS: 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, and litigation in which the Association is or may become involved. The nature of any and all business to be considered in executive session shall first be announced in open session.

Section 12: ACTION WITHOUT MEETING: Any action which may be taken by the Board of Directors at a regular or special meeting may be taken without a meeting. If the Board of Directors resolves by unanimous written consent to take action,

an explanation of the action taken shall be given by the Board to Members of the Association within three days after all written consent have been obtained. This explanation shall be given in the manner prescribed herein for the giving of notice of special meetings of the Board of Directors. A copy of the signed resolution shall be entered into the minutes of the next Board meeting.

Section 13: INDEMNIFICATION OF DIRECTORS, OFFICERS, AND EMPLOYEES: The Association may, to the maximum extent permitted by Section 7237 of the California Corporations Code, reimburse, indemnify, and hold harmless each present and future director, officer and employee of the Association and each person who, at the request of the Association acts as a director, officer or employee of any other corporation in which the Association has an interest, from and against all loss, cost, liability, and expense which may be imposed upon or reasonably incurred by him, including reasonable settlement payments, in connection with any claim, action, suit or proceeding or threat thereof, made or instituted, in which he may be involved or be made a party by reason of his being or having been a director, officer or employee of the Association or such other corporation, or by reason of any action alleged to have been taken or omitted by him in such capacity. The right of indemnification provided in this Section shall inure to each person referred to in this Section, whether or not the claim asserted against him is based on matters which arose in whole or in part prior to the adoption of this Section and in the event of his death shall extend to his legal representatives.

Section 14: RECORDS: The Board shall cause to be kept a complete record of all its acts and corporate affairs, and to send out a summary statement thereof to the Members within forty-five (45) days of each regular and special meeting.

#### ARTICLE VI: POWERS AND DUTIES OF DIRECTORS:

Section 1: POWERS: In addition to the powers and duties of the Board as set forth in the Declaration and the Articles, and subject to limitations of the Articles, the Declaration, or these By-Laws and of the California Corporations Code as to actions to be authorized or approved by the Members, and subject to the duties of the Directors as prescribed by these By-Laws, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Association shall be controlled by the Board. Without prejudice to such general powers, but subject to the same limitations, the Board is vested with and shall have the following powers, to wit:

(a) To select, appoint, and remove all officers, agents and employees of the Association, to prescribe such powers and duties for them as may be consistent with law, the Articles, the Declaration and/or these By-Laws.

(b) To conduct, manage, and control the affairs and business of the Association, and to enforce such rules and regulations thereof consistent with law, with the Articles, the Declaration and/or these By-Laws, as the Board may deem necessary or advisable.

(c) To fix, determine, and name from time to time, if necessary or advisable, the nonprofit corporation, city or public agency which is then or there organized or operated for purposes similar to the purposes of this Association to which the assets of this Association shall be distributed upon liquidation or dissolution according to the Articles. The assets so distributed shall be those remaining after satisfaction of all just debts and obligations of the Association under the terms of a specific trust or trusts.

(d) to maintain the properties and the Common Area therein in accordance with the terms, covenants and conditions of the Declaration, but subject to the limitations on the power of the Board, as specifically set forth in the Declaration.

(e) Employ a manager, an independent contractor, or such other employees as it deems necessary, and to prescribe their duties.

Section 2: DUTIES: It shall be the duty of the Board of Directors to:

(a) Cause to be kept a complete record of all its acts and corporate 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 who are entitled to vote.

(b) Cause an annual independent examination or audit of the Association's account or accounts to be made and cause copy of such report to be available to each Member within thirty (30) days of completion.

(c) Supervise all officers, agents, and employees of the Association, and see that their duties are properly performed.

(d) As more fully provided herein, and in the Declaration:

(1) Fix the amount of the annual assessment against each Lot at least forty-five (45) days in advance of each annual assessment period.

(2) Send written notice of each assessment to every Owner subject thereto at least thirty (30) days in advance of each annual assessment period.

(3) Foreclose the lien against any property for which assessments are not paid within ninety (90) days after due date or to bring an action at law against the Owner personally obligated to pay the same.

(e) Issue, or cause an appropriate officer to issue, upon demand by any person, a certificate indicating the status of any assessment, whether delinquent or paid. A reasonable charge may be made by the Board for the issuance of these certificates. Such certificate shall be conclusive evidence of payment of any assessment therein stated to have been paid.

(f) Procure and maintain adequate liability and hazard insurance on property owned by the Association.

(g) Cause all Board members, officers or employees having fiscal responsibilities to be bonded as it may deem appropriate.

(h) Cause the Common Area to be maintained.

(i) Pay the taxes and assessments which are or could become a lien on the Common Area.

(j) The Board of Directors on behalf of the Association shall obtain and continue in effect adequate blanket public liability insurance with a limit of not less than one million (\$1,000,000) dollars for claims for personal injury and/or property damage arising out of a single occurrence, and casualty insurance and fire insurance with extended coverage, in an amount equal to one hundred (100%) percent

of the full insurable replacement cost of the Properties without deduction for depreciation. Such insurance shall be maintained by the board of Directors for the benefit of the Association, the Owners and Institutional Holders of First Mortgage upon the Properties or any part thereof as their interests may appear as named insured, subject, however, to loss payment requirements as set forth herein. The Association shall maintain fidelity coverage against dishonest acts on the part of directors, managers, trustees, employees, or volunteers responsible for handling funds belonging to or administered by the Association, and such fidelity coverage shall name the Association as obligee, and shall be written in an amount equal to one hundred fifty (150%) percent of the estimated annual operating expenses of the Association, including reserves. Persons serving without compensation shall be covered by endorsement to the policy, if not otherwise covered under this policy. The Board of Directors may purchase such other insurance as it may deem necessary, including, but not limited to, plate glass insurance, medical payments, malicious mischief, and vandalism insurance and Workers' Compensation and directors' and officers' liability.

(1) Except as expressly provided in this Section of this Article to the contrary, no Owner will separately insure his Lot or any part thereof against loss by fire or other casualty covered by an insurance carried by the Association. Each Owner shall provide insurance on his personal property and upon all other property improvements within his Lot, but not including the Lot. Nothing herein shall preclude any Owner from carrying any public liability for damage to person or property occurring inside his individual Lot or elsewhere upon the Properties.

(2) Insurance premiums for any such blanket insurance coverage obtained by the Board of Directors shall be a common expense to be included in the annual assessments levied by the Association, collected from the Owners; and the proportion of such payments necessary for the required insurance premiums shall be used solely for the payments of premiums of required insurance as such premiums become due.

(3) The Board of Directors shall review the insurance carried by the Association at least annually, for the purpose of determining the amount of the casualty and fire insurance referred to in Section 1 above. The Board of Directors shall obtain a current appraisal of the full replacement value of the buildings and improvements in the Properties, except for foundations and footings and masonry walls, without deduction for depreciation, by a qualified independent insurance appraiser, prior to each such annual review.

(k) Establish and implement set standards, specifications and job detail for all contracts let by the Board and/or Committees authorized by the Board.

## ARTICLE VII: OFFICERS AND THEIR DUTIES:

Section 1: ENUMERATION OF OFFICES: The officers of the Association shall be a President and Vice President, who shall at all times be Members of the Board of Directors, a Secretary and a Treasurer, and such other officers as the Board may from time to time by resolution establish.

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 or until replaced by their successors unless they shall sooner resign, or shall be removed, or otherwise be disqualified to serve.

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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 the Board may from time to time determine.

Section 5: RESIGNATION AND REMOVAL: Any officer may be removed from office with or without cause by the Board. Any officer may resign at any time by giving written notice to the Board, and President or 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.

Section 6: VACANCIES: A vacancy in any office may be filled in the manner prescribed for regular election. The officer elected to such vacancy shall serve for the remainder of the term of any officer he replaces.

Section 7: MULTIPLE OFFICES: The offices of Secretary and Treasurer may be held by the same person. No person shall simultaneously hold more than one of the other offices except in the case of special offices created pursuant to Section 4 of this Article.

Section 8: DUTIES: The duties of the officers shall be as follows:

(a) PRESIDENT: The President shall preside at all meetings of the Board of Directors, and at all meetings of the Members, shall implement the orders and resolutions of the Board, shall sign all leases, mortgages, deeds and other written instruments and shall sign all promissory notes of the Association.

(b) 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 of him by the Board.

(c) SECRETARY: The Secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the Members, serve notice of meetings of the Board and of its Members, keep the corporate seal of the Association and affix it to all papers requiring such seal, keep or cause to be kept appropriate current records showing the Members of the Association together with their addresses, and shall perform such other duties as may be required by the Board.

(d) TREASURER: The Treasurer shall receive and deposit in appropriate bank accounts all monies of the Association and shall disburse such funds as directed by resolution of the Board of Directors, shall sign all promissory notes of the Association, and keep proper books of account.

#### ARTICLE VIII: MISCELLANEOUS:

Section 1: RECORD OWNER: The record owner of each Lot, as defined in Article III, Section 1, as of the date of any annual or special meeting of the Members shall be entitled to vote at any such meeting.

Section 2: CHECKS, DRAFTS, ETC.: All checks, drafts, or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the Association, shall be signed or endorsed by such officer or officers and in such manner as is consistent with the requirements of these By-Laws contained in Article VII, Section 8, paragraphs (a) and (d).

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Section 3: CONTRACTS - HOW EXECUTED: The Board, except as in these By-Laws otherwise provided, may authorize any office or officer, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Association, and such authority may be general or confined to specific instances; and unless so authorized by the Board, no officer, agent or employee shall have any power or authority to bind the Association by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount. The Board shall not enter into any contracts for goods or services with a duration greater than one (1) year without the vote or written consent of a majority of the total voting power of the Association, with the following exceptions:

(a) A management contract, the term of which has been approved by the Federal Housing Administration or Veterans Administration.

(b) 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.

(c) Prepaid casualty and/or liability insurance policies of not to exceed three (3) years duration, provided the policy permits for short rate cancellation by the insured. Any agreement for professional management of the Association or for services of the Declarant must provide that the management contract may be terminated by either party without cause of payment of a termination fee upon thirty (30) days written notice and the term of such contract shall not exceed one (1) year.

Section 4: BUDGETS AND FINANCIAL STATEMENTS: The Board shall cause financial statements for the Association to be prepared and sent to each member as follows:

(a) A pro forma operating statement (budget) for each fiscal year of the Association shall be prepared and distributed to each Member not less than thirty (30) days prior to the beginning of the fiscal year of the Association.

(b) An annual report consisting of a balance sheet as of the last day of the fiscal year, and an operating income statement for the fiscal year shall be distributed within one hundred twenty (120) days after the closing of the fiscal year to each Member of the Association. Such annual report shall include a statement of changes and financial position for the fiscal year, and any information required to be reported under Section 8322 of the California Corporations Code. If such annual report is not prepared by an independent accountant, it shall be accompanied by the certificate of an authorized officer of the Association that the statements contained therein were prepared without audit from the books and records of the Association.

Section 5: INSPECTION OF BY-LAWS: The Association shall keep in its principal office for the transaction of business the original or a copy of the By-Laws as amended, certified by the Secretary, which shall be open to inspection by all the Members at all reasonable times.

Section 6: EXTERNAL AUDITS: An external audit prepared by an independent public accountant shall be required for fiscal year financial statements (other than budgets) of the Association for any fiscal year. A copy of such audit shall be available for the inspection of each Member, Officer or Director of the Association within thirty (30) days of completion thereof.

Section 7: SINGULAR INCLUDES PLURAL: Wherever the context of these By-Laws requires same, the singular shall include the plural, and the masculine shall include the feminine.

Section 8: CONFLICTS: In the case of any conflict between the Articles of Incorporation and these By-Laws, the Articles shall control, and, in the case of conflict between the Declaration and the By-Laws, the Declaration shall control.

#### ARTICLE IV: BOOKS AND RECORDS:

Section 1: INSPECTION RIGHTS OF MEMBERS: The membership register, books of account, records, papers, minutes of Members' meetings and Board of Directors' meetings and of committees of the Board of Directors of the Association shall at all times, during reasonable business hours, be subject to inspection by any Member and the lender or any Owner of a Lot at any reasonable time and for a purpose reasonably related to his interest as a Member, at the office of the Association or at such other place as the Board shall prescribe.

Section 2: RULES FOR INSPECTION: The Board of Directors shall establish reasonable rules with respect to the following:

(a) Notice to be given to the custodian of the records by the Members desiring to make the inspection.

(b) Hours and days of the week when such an inspection may be made.

(c) Payment of the cost of reproducing copies of documents requested by a Member.

Section 3: RIGHTS OF DIRECTORS: Every Director shall have the absolute right at any reasonable time to inspect all books, records and documents of the Association and the physical properties owned or controlled by the Association. The right of inspection by a Director includes the right to make extracts and copies of documents.

Section 4: RECORD KEEPING: Books and records of all acts of the Board and of the Association shall be prepared, signed, and certified, as required by law, and maintained at all times by the Board of Directors.

#### ARTICLE X: AMENDMENTS:

Section 1: POWER OF MEMBERS: The By-Laws may be adopted, amended or repealed only by the vote or written assent of Members entitled to exercise a majority of the voting power of the Association.

Section 2: RECORD OF AMENDMENTS: Whenever an amendment or new By-Law is adopted, it shall be placed in the book of By-Laws in the appropriate place. If any By-Law is repealed, the fact of repeal, with the date of the meeting at which the repeal was enacted or written assent was filed, shall be stated in said book.

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