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RECORDING REQUESTED BY AND
AFTER RECORDING RETURN TO:

Martis Valley Investments
4401 Hazel Avenue, #275
Fair Oaks, CA 95628

DECLARATION
OF
COVENANTS, CONDITIONS AND RESTRICTIONS
OF
CAMBRIDGE ESTATES PHASE V
(FINAL MAP NO. 90-07)

1605
9/16/03

DECLARATION
OF
COVENANTS, CONDITIONS AND RESTRICTIONS
OF
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(FINAL MAP NO. 90-07)

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DECLARATION
OF
COVENANTS, CONDITIONS AND RESTRICTIONS
OF
CAMBRIDGE ESTATES PHASE V
(FINAL MAP NO. 90-07)

THIS DECLARATION is made on the date hereinafter set forth by MARTIS VALLEY INVESTMENTS, a California Limited Partnership (herein referred to as "Declarant").

SECTION 1: RECITALS

1.01. Description of Real Property. Declarant is the Owner of that certain real property in the Town of Truckee, County of Nevada, State of California, which is more particularly described on Exhibit "A" attached hereto and incorporated herein.

1.02. Single Phase. Declarant has improved or intends to improve the Project by subdividing it into 66 residential lots and one common area lot with improvements ("Common Area").

1.03. Ownership Interests. Each Owner shall receive fee title to his/her Lot and membership in Elkhorn Ridge Owners Association which shall hold title to the Common Area, a non-exclusive easement for use, enjoyment, ingress and egress over the Common Area, and such other interests as are provided herein.

1.04. Common Plan for Project. By this Declaration, Declarant intends to establish a common scheme and plan for the possession, use, enjoyment, repair, maintenance, restoration and improvement of the Project and interests therein conveyed and to establish thereon a Planned Development.

NOW, THEREFORE, Declarant hereby declares that the real property described on Exhibit "A" shall be held, conveyed, mortgaged, encumbered, leased, rented, used, occupied, sold and improved, subject to the following declarations, limitations, covenants, conditions, restrictions and easements all of which are for the purpose of enhancing and protecting the value and attractiveness of the Project, in accordance with the plan for improvement of the Property and the division thereof into Lots. Pursuant to California Civil Code Sections 1353 and 1354, all of the limitations, covenants, conditions, restrictions and easements shall constitute covenants which shall run with the land, be enforceable as equitable servitudes, and shall be binding upon Declarant and its successors and assigns, and all parties having or acquiring any right, title or interest in or to any part of the Property or the Project.

SECTION 2: DEFINITIONS

In addition to other definitions provided for herein, the following terms shall have the following meanings:

2.01. "Architectural Control Committee" or "Committee" shall mean the committee created pursuant to the Section or Subsection below entitled "Architectural Control" and which is charged with architectural approval and control of the Improvements within the Property.

2.02. "Architectural Control Guidelines" or "Guidelines" shall mean the written architectural review standards, if any, promulgated by the Architectural Control Committee as provided in the Section or Subsection below entitled "Architectural Control".

2.03. "Articles" shall mean the Articles of Incorporation of Elkhorn Ridge Owners Association and any amendments thereto.

2.04. "Assessment" shall mean that portion of the cost of maintaining, improving, repairing, operating and managing the Project which is to be paid by each Lot Owner as determined by the Association.

2.05. "Association" shall mean the Elkhorn Ridge Owners Association, a California non-profit mutual benefit corporation, the members of which shall be the Owners of Lots in the Project, their successors and assigns.

2.06. "Association Rules" shall mean rules and regulations regulating the use and enjoyment of the Common Area which may be adopted by the Board from time to time.

2.07. "Board" or "Board of Directors" shall mean the governing body of the Association.

2.08. "Bylaws" shall mean the Bylaws of the Association, as amended from time to time.

2.09. "Common Area" means all real property owned by the Association for the common use and enjoyment of the Owners and shall include, upon conveyance to the Association, the plot of land designated Parcel A on the Map, and any other plot of land which may be conveyed to the Association.

2.10. "Common Expenses" shall mean and include the actual and estimated expenses of operating the Project and any reasonable reserve for such purposes as found and determined by the Board and all sums designated Common Expenses by or pursuant to the Project Documents.

2.11. "County" shall mean the County of Nevada, California, the County in which the Project is located.

2.12. "Declarant" shall mean Martis Valley Investments, a California Limited Partnership, its successors and assigns, if such successors and assigns are assigned the rights of Declarant pursuant to Section 16.10 hereof or if such successor or assign is a mortgagee acquiring Declarant's interest in the Project by foreclosure or by deed in lieu of foreclosure.

2.13. "Declaration" shall mean this Declaration, and any amendments, modifications or supplements thereto.

2.14. "Eligible First Mortgagee" shall mean a First Mortgagee who has requested notice by sending a written request to the Association, stating both its name and address and the Lot number or address of the Lot it has the mortgage on.

2.15. "Final Public Report" shall mean the final public report issued by the California Department of Real Estate or any successor state agency pursuant to the California Subdivided Lands Act (Business & Professions Code Section 11000, et seq.), as it may be amended from time to time.

2.16. "Improvements" shall mean all structures and improvements on the Project, including, but not limited to, buildings, paving, fences, signs and landscaping.

2.17. "Lot" shall mean any parcel of land shown on the Map, and any other parcel of land designated as "Lot" in any recorded supplement to the Declaration, with the exception of the Common Area.

2.18. "Map" shall mean that subdivision map entitled Cambridge Estates Phase V – Final Map No. 90 - 07", recorded on April 27, 2004 in Book 8 of Maps, Page 118, in the Official Records of Nevada County.

2.19. "Member" shall mean a person or entity holding a membership in the Association as provided herein. Each Owner or Co-Owner of a Lot shall be a member.

2.20. "Mortgage" shall mean a mortgage or deed of trust encumbering a Lot or other portion of the Project. A "Mortgagee" shall include the beneficiary under a deed of trust and any guarantor or insurer of a Mortgage. "First Mortgage" or "First Mortgagee" is one having priority over all other Mortgages or holders of Mortgages encumbering the same Lot or other portion of the Project. A "First Mortgagee" shall include any holder (including FHLMC and FNMA), insurer (including FHA), or guarantor (including VA) of a First Mortgage on a Lot or other portion of the Project. "FHA" shall mean the United States Department of Housing and Urban Development, Federal Housing Administration. "VA" shall mean the United States Department of Veterans Affairs. "FHLMC" shall mean the Federal Home Loan Mortgage Corporation. "FNMA" shall mean the Federal National Mortgage Association. Where any provision of the Project Documents requires the approval of a First Mortgagee, the approval of the holder, insurer or guarantor of that First Mortgage shall be deemed to be the required approval.

2.21. "Owner" or "Owners" shall mean the record holder or holders of title, if more than one, to any Lot in the Project. This shall not include contract sellers or persons or entities having any interest merely as security for the performance of an obligation. If a Lot is sold under a recorded contract of sale (or a recorded memorandum of such contract), the purchaser, rather than the fee Owner, shall be considered the "Owner".

2.22. "Project Documents" shall mean and include this Declaration as amended from time to time, the exhibits, if any attached hereto, together with the other basic documents used to create and govern the Project, including the Map, Articles, Bylaws, and Rules and Regulations of the Association.

2.23. "Property", "Properties" or "Project" shall mean the entire real property described on Exhibit "A" attached hereto, including all structures and improvements erected thereon or on such additional properties which may be brought within the jurisdiction of the Association.

2.24. "Quorum" shall mean a majority of those entitled to act, except in the case of a quorum necessary for the imposition of regular and special assessments set forth in Section 8.

2.25. "Separate Interest" shall mean a Lot.

2.26. "Subdivided Property" shall mean the entire real property described on Exhibit "A" attached hereto, including all structures and improvements erected thereon or on such additional properties which may be brought within the jurisdiction of the Association.

2.27. "Subdivider" shall mean the Declarant.

2.28. "Town" shall mean Town of Truckee, California, the Town in which the Property is located.

2.29. "Unit" shall mean a dwelling structure on a Lot.

SECTION 3: PROPERTY RIGHTS

3.01. Common Area. The Common Area shall be owned by the Association for the use and benefit of the Members. It shall be conveyed to the Association free of money encumbrances prior to or concurrently with the close of escrow of the sale of the first Lot. The Common Area shall be maintained by the Association as provided in Section 5.01. When the Common Area is conveyed by Declarant to the Association, an easement shall be deemed automatically reserved over the Common Area in favor of Declarant for drainage and encroachment purposes and for ingress and egress from the Common Areas for the purpose of completing improvements thereon or for the performance of necessary repair work. Said easement shall automatically terminate four years after the recordation of this Declaration.

3.02. Partition Prohibited. The Common Area shall remain undivided as set forth above. Except as provided by California Civil Code Section 1359, no Owner shall bring any action for partition, it being agreed that this restriction is necessary in order to preserve the rights of the Owners with respect to the operation and management of the Project. Judicial partition by sale of a single Lot owned by two or more persons and division of the sale proceeds is not prohibited hereby, but partition of title to a single Lot is prohibited.

3.03. Annexation of Additional Property. Additional Property may be annexed to and become subject to this Declaration by the following method set forth in this Section. Upon annexation, additional parcels shall become subject to this Declaration without the necessity of amending individual sections thereof.

a) Annexation Pursuant to Approval. Upon approval in writing of the Association, pursuant to vote or written consent of 66-2/3% of the total votes residing in Members other than the Declarant, the Association and the Owner of any Property who desires to add it to the scheme of this Declaration and to subject it to the jurisdiction of the Association, may file of record a Declaration of Annexation. Said Declaration may contain such complementary additions and modifications of the covenants and restrictions contained in this Declaration as may be necessary to reflect the different character, if any, of the added Property, as are consistent with the scheme of this Declaration. Said Declaration shall include designation of Lots and/or Common Areas for the purpose of this Declaration.

b) Effect of Annexation. Assessments collected from Owners in the Property may be expended by the Association without regard to the particular phase from which such assessments came. All Owners shall have ingress and egress to all portions of the Common Area throughout the Property, subject to the provisions of this Declaration, the Bylaws and the Association Rules in effect from time to time.

c) Quality of Construction. Future improvements to the Project shall be consistent with the initial improvements in terms of materials used and quality of construction.

3.04. Easements. In addition to any and all other easements contained in this Declaration, the Properties shall be subject to the following easements:

a) Owners' Easements. Every Owner shall have a right and nonexclusive easement of enjoyment in and to the Common Area, including ingress and egress to and from his/her Lot. Each such nonexclusive easement shall be appurtenant to and shall pass with the title to the Lot, subject to the following provisions:

i) Section 9 of this Declaration authorizes the Board to impose monetary penalties, temporary suspensions of an Owner's rights as a Member of the Association or other appropriate discipline for failure to comply with the governing instruments, provided that the established procedures are followed for notice and hearing which satisfy the minimum requirements of Corporations Code Section 7341 with respect to the accused Member before a decision to impose discipline is reached. These procedures are set out in Section 12 of the Bylaws.

ii) The right of the Association to dedicate or transfer all or any part of the Common Area to any public agency, authority, or utility for such purposes and subject to such conditions as may be agreed to by the Members. No such dedication or transfer shall be effective unless an instrument signed by two-thirds of the Members agreeing to such dedication and the transfer has been recorded, provided, however, that no such dedication shall impair the ingress to and egress from any individual Lot.

b) Easements for Utilities and Maintenance. Easements over and under the Project for the installation, repair and maintenance of electric, telephone, water, gas and sanitary sewer lines and facilities, cable or master television antenna lines, drainage facilities, and open space as shown on the Map, and as may be hereafter required or needed to service the Project, or any annexable Property thereto, are hereby reserved by Declarant and its successors and assigns, including the Association and all utility companies which serve the Project, together with the right to grant and transfer the same.

c) Encroachment Easements. Each Lot within the Project is hereby declared to have an easement over any adjoining Common Area for the purpose of accommodating any encroachment due to minor engineering errors, minor errors in original construction, settlement or shifting of the building, or any other cause. There shall be valid easements for the maintenance of said encroachments as long as they shall exist, and the rights and obligations of Owners shall not be altered in any way by said encroachment, settlement or shifting; provided, however, that in no event shall a valid easement for encroachment be created in favor of an Owner or Owners if said encroachment occurred due to the willful misconduct of said Owner or Owners. In the event a structure is partially or totally destroyed, and then repaired or rebuilt, the Owners of all Lots in the Project agree that minor encroachments over the Common Area adjoining the Lot due to minor engineering errors, minor errors in construction, or settlement or shifting of the building, shall be permitted and that there shall be valid easements for the maintenance of said encroachments so long as they shall exist.

d) Entry for Repairs. The Board may authorize its agents and employees to enter upon any Lot when necessary in connection with any maintenance, landscaping or construction for which the Association is responsible, to effect emergency repairs or to effect necessary repairs which the Lot Owner has failed to perform as required by this Declaration. Such entry shall be made with as little inconvenience to the Owner as reasonably practicable and any damage caused thereby shall be repaired by the Board at the expense of the Association. Except in case of an emergency, 24 hour advance notice shall be given to the Owner or occupant.

3.05. Provisions Restricting Delegation of Use. Any Owner may delegate his/her rights of use and enjoyment of the Project, including any recreational facilities, to the members of their family, their guests, tenants, employees, and invitees, and to such other persons as may be permitted by the Bylaws and the Association Rules, subject however, to this Declaration. However, if an Owner has sold his/her Lot to a contract purchaser or has leased or rented it, the Owner, members of the Owner's family, guests, tenants, employees, and invitees shall not be entitled to use and enjoy any of such rights in the Project, including the recreational facilities, while the Owner's Lot is sold to a contract purchaser or rented to tenants. Instead, the

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contract purchaser or tenants, while occupying such Lot, shall be entitled to use and enjoy such rights, including any recreational facilities, and can delegate the rights of use and enjoyment in the same manner as if such contract purchaser or tenants were an Owner during the period of their occupancy. Each Owner shall notify the Secretary of the Association of the names of any contract purchasers of such Owner's Lot or tenants of such Owner's Lot. Each Owner, contract purchaser or tenant also shall notify the Secretary of the Association of the names of all persons to whom such Owner, contract purchaser or tenant has delegated any rights of use and enjoyment and the relationship that each such person bears to the Owner, contract purchaser or tenant. Any delegated rights of use and enjoyment are subject to suspension to the same extent as are the rights of Owners. No such delegation shall relieve an Owner from liability to the Association or to other Owners for payment of assessments or performance of the covenants, conditions and restrictions contained in this Declaration. Any lease, rental agreement or contract of sale entered into between an Owner and a tenant or contract purchaser of a Lot shall require compliance by the tenant or contract purchaser with all of the covenants, conditions and restrictions contained in this Declaration, which provision shall be for the express benefit of the Association and each Owner. The Association and each Owner shall have a right to action directly against any tenant or contract purchaser of an Owner, as well as against the Owner, for nonperformance of any of the provisions of this Declaration to the same extent that such right of action exists against such Owner.

SECTION 4: USE RESTRICTIONS

4.01. Use of Lots. No Lot, or any portion thereof, shall be occupied and used except for single family residential purposes by the Owners, their contract purchasers, lessees, tenants or social guests. No trade or business or commercial activity shall be carried on or conducted upon any Lot, except that Declarant, its successors or assigns, may use any Lot in the Project owned by Declarant for a model home site and display and sales office during construction and until the last Lot is sold by Declarant, or until three years from the date of closing of the first sale of a Lot in the Project, whichever occurs first. The provisions of this section shall not prohibit home occupations so long as they are merely incidental to the use of the Lot as a dwelling, are permitted by local law, are conducted in such a manner as to not adversely affect other Owner's use and enjoyment of the Project, and have received prior written approval of the Board.

4.02. Garages. Each Owner shall keep his/her garage area in a neat and orderly condition with any storage areas completely enclosed. Garage doors shall be kept closed when not in use. Each Owner shall be entitled to the exclusive use of the driveway serving his/her garage and shall keep said driveway clean and free of debris.

4.03. Parking and Vehicle Restrictions.

a) All driveways and garages shall be maintained in a neat and orderly condition and garage doors shall be kept in a closed position except as necessary to permit ingress and egress of vehicles or to clean or work in the garage area. Garages are to be used for the parking of standard passenger vehicles and trucks not to exceed three-quarter tons in load capacity, boats or the storage of similar items of personal property so long as such storage of personal property will not necessitate or result in the parking of any vehicle on streets or regularly on driveways within the Properties. Furthermore, garages shall not be converted to living quarters or workshops which will preclude the parking of vehicles.

b) No motor vehicle shall be constructed, reconstructed or repaired within the Properties, except within an enclosed garage and no dilapidated or inoperable vehicle, including vehicles without wheel(s) or an engine, shall be stored on the Properties; provided, however, that the provisions of this subparagraph c) shall not apply to emergency vehicle repairs.

c) Campers, boats, trailers and trucks shall only be parked entirely within an Owner's garage so long as such storage will not necessitate or result in the parking of any vehicle on streets or regularly on driveways within the Properties or in a recreational vehicle parking area on the Lot approved as to location, screening and design by the Architectural Control Committee. If an Owner or resident has a boat and/or trailer that are not regularly parked and stored on the Owner's Lot in accordance with this subparagraph d), the Owner may park the boat and/or trailer during week days in accordance with the limitations imposed on commercial vehicles under subparagraph e), below, and overnight on Friday and Saturday nights.

d) Commercial trucks and vehicles that bear signage on the exterior shall not be parked within the Properties, except for purposes of loading or unloading and then for periods not in excess of four hours. This restriction shall not apply to commercial vehicles involved in construction activities on a Lot or vehicles owned and operated by persons providing services to a Lot or Unit (during the time when the services are being rendered).

e) The Board shall have the authority to promulgate as part of the Association's rules such further rules and restrictions regarding parking and vehicles within the Properties as may be deemed prudent and appropriate.

4.04. Burning. There shall be no exterior fires whatsoever except barbecue fires located only upon Lots and contained within receptacles designed for such purpose. No Owner or resident shall permit any condition to exist on his or her Lot, including, without limitation, trash piles, or weeds, which create a fire hazard or is in violation of local fire regulations.

4.05. Signs. No sign of any kind shall be displayed to the public view on or from any Lot or any portion of the Project without the approval of the Association, except as follows:

- a) One sign of customary and reasonable dimensions advertising a Lot for sale, lease, rent or exchange displayed from a Lot; or,
- b) Such signs as may be used by Declarant or its assignees in connection with the development of the Project and sale of Lots; or,
- c) Such other signs or notices as are required by law or as are otherwise necessary to perfect a right provided for in law.

4.06. Animals. No animals, reptiles, rodents, birds, fish, livestock or poultry shall be raised, bred or kept on any Lot or portion of the Project; except that no more than two usual and ordinary household pets such as dogs, cats, fish or birds may be kept, provided that they are not kept, bred or maintained for any commercial purposes, and they are kept under reasonable control at all times. This provision shall not apply to aquarium type fish. Notwithstanding the foregoing, no pets may be kept on the Project which result in an annoyance or nuisance to other Owners. No pets shall be allowed on the Common Area except as may be permitted by Association Rules. No dog shall enter the Common Area except while on a leash which is held by a person capable of controlling it. Owners shall prevent their pets from soiling any portion of the Common Area. The Association can prohibit the keeping of any animal that, in the sole and exclusive opinion of the Board, constitutes a nuisance to any other Owner.

4.07. Trash and Storage of Materials. All garbage and trash shall be regularly removed from the Project, and shall not be allowed to accumulate thereon. It shall be placed and kept in covered sanitary containers where it is not visible from any neighboring Lot except for a reasonable time prior to or after collection. All woodpiles or storage piles shall be kept screened and concealed from view of other Lots, streets and Common Areas. Garbage and trash shall be placed for pick up as required by the disposal service and the Association Rules.

4.08. Television or Radio Equipment. No television, video or radio poles, antennae, satellite dishes, cables or other transmission and/or reception fixtures or personal property (individually and collectively the "Antenna Equipment") shall be installed or maintained on any Lot except as follows:

- a) Authorized Antenna Requirements. Owners are prohibited from installing any antennae on the exterior of a Unit for any purpose except for an "Authorized Antenna" which may be installed so long as the proposed location for such installation is reviewed by the Architectural Control Committee before installation to ensure that the visibility of the Authorized Antenna is minimized with respect to other Owners. The Architectural Control Committee may require

that the location of the Authorized Antenna be moved so long as such review by the Architectural Control Committee does not (i) unreasonably delay or prevent installation, maintenance or use of an Authorized Antenna, (ii) unreasonably increase the cost of installation, maintenance or use of an Authorized Antenna, or (iii) preclude acceptable quality reception.

- b) Authorized Antenna Defined. An "Authorized Antenna" means (i) an antenna designed to receive direct broadcast satellite service, including direct-to-home satellite service, that is one meter or less in diameter, (ii) an antenna designed to receive video programming service, including multichannel multipoint distribution service, instructional television fixed service, and local multipoint distribution service, and is one meter or less in diameter or diagonal measurement, (iii) an antenna designed to receive television broadcast signals, and (iv) a mast supporting an antenna described in items (i), (ii), and (iii) above.
- c) Additional Restrictions. The Association may adopt additional restrictions on installation or use of Authorized Antenna on an Owner's Lot as part of the Association's rules and regulations so long as such restrictions do not (i) unreasonably delay or prevent installation, maintenance or use of an Authorized Antenna, (ii) unreasonably increase the cost of installation, maintenance or use of an Authorized Antenna, or (iii) preclude acceptable quality reception. The Association may prohibit the installation of an Authorized antenna if the installation, location or maintenance of such Authorized Antenna unreasonably affects the safety of managers, agents or employees of the Association and other Owners, or for any other safety-related reason established by the Association.

Nothing herein shall be construed to restrict in any manner the Board's right to authorize a cable television franchisee or other provider of similar services to provide cable television, radio or other similar services to the Project.

4.09. Right to Lease. No Owner shall be permitted to lease or rent his/her Lot for transient or hotel purposes, which shall include, but not be limited to, rental for any period less than 30 days. All leases must be in writing and be expressly subject to the Project Documents and the Association Rules, and the breach of any provision shall be a default under the lease or rental Agreement. Subject to the foregoing restrictions, the Owners of Lots shall have the right to lease the same, provided that the Board is notified of the name of the tenant and the duration of the lease. The Owner shall provide the Lessee with a copy of the Articles, Bylaws, Declaration and any Association Rules.

4.10. Architectural Control.

4.10.1 General Limitation. Subject to the exemptions described below, no Improvement or Unit may be constructed, erected, painted, altered or changed on any portion of the Project without the prior written approval of the Architectural Control Committee ("Committee").

4.10.2 Exemptions. Notwithstanding Section 4.10.1, no Committee approval shall be required for (a) Improvements constructed by, at the direction of, or with the approval of Declarant; (b) normal maintenance of exempt or previously approved Improvements; (c) repair or rebuilding of an exempt or previously approved Improvement; (d) changes to the interior of an exempt or previously approved Unit; (e) work reasonably required to be performed in an emergency for the purpose of protecting any person or property from damage.

4.10.3 Architectural Control Committee.

a. An Architectural Control Committee ("Committee") shall be formed and shall consist of three Members. Declarant may appoint all of the original Members of the Committee and all replacements until the first anniversary of the issuance of the original Public Report for the first (or only) phase of the Project. The Declarant reserves to itself the power to appoint a majority of the Members of the Committee until 90% of all the Lots in the Project (including subsequent phases) have been sold or until the fifth anniversary of the original issuance of the Final Public Report for the first (or only) phase of the Property, whichever occurs first.

After one year from the date of the issuance of the original Final Public Report for the first (or only) phase, the Board shall have the power to appoint one Member to the Committee until 90% of all the Lots in the overall Project have been sold or until the fifth anniversary date of the original issuance of the Final Public Report for the first (or only) phase of the Project, whichever first occurs. Thereafter, the Board shall have the power to appoint all of the Members of the Committee. In the event of death or resignation of any Member of the Committee, the successor shall be appointed by the person, entity or group which appointed such Member until Declarant no longer has the right to appoint any Members to the Committee, and thereafter the Board shall have the full authority to designate such a successor.

b. No building, fence, wall, obstruction, authorized antenna, screen, awning or structure of any kind shall be commenced, erected or maintained upon the Project, nor shall any alteration or improvement of any kind be made thereto until the same has been approved in writing by the Committee. Plans and specifications showing the nature, kind, shape, color, size, materials and location of such improvements, alterations, etc., shall be submitted to the Committee for approval as to quality of workmanship and design and harmony of external design with existing structures, and as to location in relation to surrounding structures, topography and finish grade elevation.

c. Operation. The Committee shall meet from time to time as necessary to properly perform its duties hereunder. A majority of the Committee members may designate a representative of the Committee to act for it. Except as provided elsewhere herein, any decision may be made by the Committee upon an affirmative vote of two-thirds of its members. The Committee shall keep and maintain a record of all actions from time to time taken by the Committee at meetings or otherwise, and shall maintain files of all documents submitted to it. The members of the Committee shall not receive any compensation for services rendered. All members of the Committee shall be entitled to reimbursement, from fees collected by the Committee, for reasonable expenses incurred by them in connection with the performance of their duties.

d. Duties. The Committee may adopt Architectural Control Guidelines ("Guidelines") as provided below and shall perform other duties imposed upon it by this Declaration or applicable laws and regulations.

e. Address. The address of the Committee shall be determined by resolution of the Committee. Such address shall be the place for the submittal of plans and specifications and the place where current copies of the Guidelines shall be kept.

f. Guidelines. The Committee may, from time to time, adopt or amend Guidelines prospectively. Said Guidelines shall interpret and implement the provisions of this Section by setting forth more specific standards and procedures for Committee review. All guidelines shall be in compliance with all applicable laws and regulations of any governmental entity having jurisdiction over Improvements in the Project, shall incorporate high standards of architectural design and construction engineering, shall be in

compliance with the minimum standards set forth herein, and otherwise shall be in conformity with the purposes and provisions of this Declaration. A copy of the current Guidelines shall be available for inspection and copying by any Owner at any reasonable time during customary and normal business hours.

g. **Standards.** The following minimum standards shall apply to any Improvements constructed, painted, altered or changed on the Project:

(i) All Improvements shall be constructed, painted and changed in compliance with the applicable zoning laws, building codes, subdivision restrictions, conditions of approval for the Project, and all other laws, ordinances and regulations applicable to Project Improvements.

(ii) Only native plants and/or drought tolerant plant species shall be used for landscaping around the Units. Berming may be utilized so long as it does not disrupt proper drainage within the Project. Landscaping shall be designed so as to compliment, protect and harmonize with the natural terrain, existing trees and vegetation and shall be consistent with generally accepted, customary and conventional landscape designs for the area. Stone, gravel, concrete and similar materials shall be used only for complimentary and supplementary purposes and no Lot shall be covered entirely with such materials.

(iii) All exterior and decorative lighting shall be, whenever possible, placed in such a manner that the source of the light is not visible to adjacent portions of the Project. Colored landscaping lighting shall be prohibited, unless approved by the Architectural Control Committee.

(iv) All Units shall be located on Lot to utilize passive solar heating and allow for optimal orientation and tilt of any solar collectors. Windows shall face South where possible. It is desirable to shade with overhangs and wing walls, and use flowthrough ventilation and light colored roofs. Adjacent Units and trees shall not block sunlight from the collectors.

(v) All Units shall have a minimum size of seventeen hundred fifty (1,750) square feet (excluding garages, carports, accessory buildings, covered or uncovered patios and porches), and all Lots shall have a minimum of two enclosed parking spaces.

(vi) The minimum roof pitch for a Unit shall be 4 in 12.

(vii) All Units shall be constructed with low-flow plumbing fixtures.

(viii) In reviewing proposed Improvements for approval, the Committee shall consider at least the following:

(1) Does the proposed Improvement conform to the purposes and provisions of the Project Documents?

(2) Is the proposed Improvement of a quality of workmanship and materials comparable to other Improvements that are proposed or existing on the Project?

(3) Is the proposed Improvement of a design and character which is harmonious with proposed or existing Improvements and with the natural topography in the immediate vicinity?

8/12/05
 2nd Amendment
 minimum house size 2200 sq ft
 all lots minimum
 2 enclosed parking
 9/3/05
 3rd Amendment
 minimum size
 by Architectural
 guidelines
 all lots
 2 enclosed
 spaces

(4) Will the proposed Improvement unreasonably interfere with or otherwise impair the view or solar access of other portions of the Project?

4.10.4 Committee Approval Process - Approval Application. Any person proposing to construct, paint, alter or change any Improvement on the Project which requires the prior approval of the Committee shall apply to the Committee in writing for approval of the work to be performed and the time schedule for performing such work. The Committee may charge an applicant a reasonable fee for application review.

In the event additional plans and specifications for the work are required by the Committee, the applicant shall be notified of such requirement within thirty days of receipt by the Committee of his initial application or the application shall be deemed sufficiently submitted as of that date. If timely notified, the applicant shall submit additional plans and specifications for the proposed work in the form and content reasonably required by the Committee and his application shall not be deemed sufficiently submitted until that date. Such plans and specifications may include, but not be limited to, showing the nature, kind, shape, color, size, materials and location of the proposed work, or the size, species and location of any plants, trees, shrubs and other proposed landscaping.

4.10.5 Review and Approval. Upon sufficient submission of an application for Committee review, the Committee shall proceed expeditiously to review all of the documents to determine whether the proposed work is in compliance with the provisions and purposes of the Project Documents and all Guidelines of the Committee in effect at the time the documents are submitted. In the event the Committee fails to approve an application, it shall notify the applicant in writing of the specific matters to which it objects. In the event the Committee fails to notify the applicant of the action taken by the Committee within thirty-five (35) days after sufficient submission of an application, the application shall be deemed approved. One set of plans as finally approved shall be retained by the Committee as a permanent record.

4.10.6 Commencement, Completion of Approved Work. Upon receipt of the approval of the Committee, the applicant shall proceed to have the work commenced and diligently and continuously pursued to completion in substantial compliance with the approval of the Committee including all conditions imposed therewith. The approval of the Committee shall be effective for a period of one year after the date of the approval subject to the right of the Committee to provide for a shorter or longer period at the time of its approval, or subsequently to extend the period upon a showing of good cause, and in the event the approved work is not commenced within the effective period of the approval, then the applicant, before commencing any work shall be required to resubmit his application for the approval of the Committee.

All approved work shall be completed within one (1) year after the date of commencement, or such other reasonable period specified by the Committee at the time of approval, with the period of time subject to extension by the number of days that work is delayed by causes not under the control of the applicant or his contractor or as otherwise extended by the Committee. Upon completion of approved work, the applicant shall give written notice thereof to the Committee.

If for any reason the Committee fails to notify the applicant of any noncompliance within sixty days after receipt of said notice of completion from the applicant, the improvement shall be deemed to be completed in accordance with said approved plans.

4.10.7 Inspection, Non-Compliance. The Committee, or any authorized representative shall have the right during normal business hours, after forty-eight hours notice to the Owner thereof, to enter upon any portion of the Project for the purpose of determining whether or not any work is being performed or was performed in compliance with this Declaration and the Guidelines.

If at any time the Committee determines that work is not being performed or was not performed in compliance with this Declaration and the Guidelines, whether based on a failure to apply for or obtain approval, a failure to comply with approval, a failure to timely commence or complete approved work or otherwise, the Committee shall notify the owner in writing of such non-compliance specifying the particulars of non-compliance.

In the event that the Owner fails to remedy such non-compliance within the specified period, the Committee shall have the right and duty to remedy the non-compliance in any appropriate manner permitted by this Declaration and the Guidelines, or as otherwise permitted by law or in equity, including but not limited to removing the non-complying Improvement, correcting the non-complying Improvement, completing the non-complying Improvement, or recording a notice of non-compliance or non-completion on the property, as appropriate. The Owner shall have the obligation to reimburse the Committee for any costs incurred in enforcing these provisions and such costs may be recovered by the Committee through an action at law against such individual lot owner.

4.10.8 Waiver. The approval by the Committee of any plans, drawings or specifications for any Improvements constructed or proposed, or in connection with any other matter requiring the approval of the Committee shall not be deemed to constitute a waiver of any right to withhold approval of any similar plan, drawing, specification or matter submitted for approval. Where unusual circumstances warrant it, the Committee may grant reasonable variances from the architectural control provisions hereof or from the Guidelines. Such variances shall be made on a case-by-case basis and shall not serve as precedent for the granting of any other variance.

4.10.9 Estoppel Certificate. Within thirty days after written demand is delivered therefore to the Committee by any Owner or Mortgagee, and upon payment to the Committee of a reasonable fee (as fixed from time to time by resolution of the Committee), the Committee shall execute and deliver in recordable form, if requested, any estoppel certificate executed by any two of its members, certifying, with respect to any Lot of said Owner or Mortgagee, that as of the date thereof either (a) all improvements made and other work done upon or within said Lot comply with the requirements of the Committee and this Declaration, or (b) such improvements or work do not so comply, in which event the certificate shall also identify the non-complying improvements or work and set forth with particularity the basis of such noncompliance. Such statement shall be binding upon the Committee in favor of any person who may rely thereon in good faith.

4.10.10 Liability. Neither the Declarant, the Committee, nor any Committee member thereof shall be liable to any Owner or to any third party for any damages, loss, or prejudice suffered or claimed on account of (a) the approval or disapproval of plans, drawings and specifications, whether or not defective, (b) the construction or performance of any work, whether or not pursuant to approved plans, drawings and specifications, (c) the development of any property within the Project, (d) the execution and filing of an estoppel certificate pursuant to Section 4.10.9, or (e) the execution and filing of a notice of noncompliance or noncompletion pursuant to Section 4.10.7, whether or not the facts therein are correct, if the Declarant, the Committee or such Committee member has acted in good faith on the basis of such information as may be possessed by them. Specifically, but not by way of limitation, it is understood that

plans and specifications are not approved for engineering design, and by approving such plans and specifications neither Declarant, the Committee, nor any Committee member thereof, assumes liability or responsibility therefore, or for any defect in any structure constructed from such plans and specifications.

4.11. Window Coverings. Windows shall be covered by drapes, shades or shutters and shall not be painted or covered by foil, cardboard or similar materials.

4.12. Clotheslines. No exterior clotheslines or other outside clothes drying or airing facility shall be erected or maintained on the properties in any location where the same would be visible from any street or neighboring Lot. Further, no clothes washers, clothes dryers, refrigerators or freezers may be kept, stored or operated on any balcony, patio, porch or other exterior area.

4.13. Power Equipment and Car Maintenance. No power equipment, workshops or major car maintenance of any nature shall be permitted on the Project without the prior written approval of the Board. In deciding to grant approval, the Board shall consider the effects of noise, air pollution, dirt or grease, fire hazard, interference with radio or television reception and similar objections.

4.14. Drainage. No Owner shall do any act or construct any improvement which would interfere with the natural or established drainage systems or patterns within the Project without the approval of the Board.

4.15. Liability of Owners for Damage to Common Area. The Owner of each Lot shall be liable to the Association for all damages to the Common Area and/or Improvements thereon caused by such Owner, or any occupant of his/her Lot or guest, or any pet of such Owner, occupant of his/her Unit or guest, except for that portion of said damage, if any, fully covered by insurance of the Association. Liability of an Owner shall be established only after notice to the Owner and hearing before the Board.

4.16. Recreational Facilities.

a) Every Member of the Association shall have a right to use any recreational facilities situated on the Common Area, subject to the following provisions:

i) The right of the Association to charge reasonable fees for the use of any recreational facility by Non-Members; and,

ii) The right of the Association to deny use after hearing for infringement of Association Rules or nonpayment of dues.

b) Any Owner may delegate, in accordance with the Bylaws, his/her right of enjoyment to the recreational facilities to family members, tenants or contract purchasers who reside at the Project.

4.17. Sports Fixtures. No fixed basketball standards or fixed sports apparatus shall be attached to any Unit or garage or erected on any Lot unless the location of the standard or other sports fixture has been approved by the Committee. *Portable* basketball standards, when not in use, shall be stored out of view.

4.18. Nuisances. No noxious, illegal or offensive activities shall be carried on within any Lot, or in any part of the Project, nor shall anything be done thereon which may be or may become an annoyance or a nuisance to or which may in any way interfere with the quiet enjoyment of each Owner's Lot or Common Area, or which would in any way increase the rate of insurance for the Project or for any Lot, or cause any

insurance policy to be cancelled or to cause a refusal to renew the same, or which would impair the structural integrity of any building.

4.19. Compliance with Project Documents. Each Owner, contract purchaser, lessee, tenant, guest, invitee or other occupant of a Lot or user of the Common Area shall comply with the provisions of the Project Documents and Association Rules.

4.20. Use of Common Area. The Common Area is for the preservation and maintenance of existing natural drainage ways, open space, and to prohibit construction of roads or buildings. The cutting of trees, grading, mining or occupancy of any kind except underground utilities or drainage ditches as required appurtenant to the Project without the amendment of the zoning regarding the Project is prohibited.

4.21. Construction Activities. The following criteria have been established to prevent or minimize the temporary discharge of pollutants or nutrients associated with construction activities:

- A. Prior to the initiation of any construction-related activities, the discharger shall install temporary erosion control measures, (i.e. filter, fabric fencing, roof eave dripline trenches, etc.) to prevent transport of earthen materials and other wastes off the Property.
- B. There shall be no removal of vegetation nor disturbance of ground surface conditions between October 15 of any year and May 1 of the following year. A written variance to the ground disturbance dates stated above may be granted by the Town or Truckee where it can be shown that granting such a variance would not contribute to the degradation of water quality.
- C. Ground compaction and disturbance activities shall be prevented in unpaved areas not subject to construction. Areas not subject to construction shall be fenced or otherwise marked to limit access. These boundary facilities shall be inspected periodically and shall be maintained when necessary.
- D. Dust shall be controlled to prevent the transport of such material off the Project site or into any surface water drainage course.
- E. All disturbed areas shall be adequately restabilized or revegetated. Revegetated areas shall be continually maintained until vegetation becomes established. Owners shall retain existing Jeffery Pines and other naturally occurring vegetation.
- F. Prior to October 15 of each year, the discharger shall provide permanent or temporary (if project is incomplete) stabilization of all disturbed or eroding areas through commencement of revegetation and/or completion of mechanical stabilization measures. Commencement of revegetation shall consist of seeding, planting, mulching, initial fertilization as needed, and initial watering as needed.

4.22. Stoves. Only one (1) wood or coal burning stove per Unit shall be permitted. All stoves shall comply with EPA phase II emission standards, as set forth below:

(1) Catalytic wood heaters shall not cause emissions of greater than five and five tenths (5.5) grams per hour.

(2) Non-catalytic wood heaters shall not cause emissions of greater than nine (9) grams per hour.

(3) Wood heaters certified to meet the above standards by the U.S. EPA under 40 CFR Part 60 shall be deemed in compliance with the above standards. Pellet fueled wood heaters labeled as exempt from 40 CFR Part 60 shall be deemed in compliance with the above standards.

4.23. How to Properly Burn Wood. In order to properly burn wood, you should utilize the following guidelines: burn only clean, dry wood and nonglossy white paper, build small, hot fires instead of large smoldering ones; burn mostly seasoned hardwoods and firelogs; watch your chimney for smoke; follow your woodheater's operating instructions carefully; inspect often and keep your woodheater and chimney in top shape.

SECTION 5: MAINTENANCE OBLIGATIONS

5.01. Association Maintenance Obligations. The Association shall be responsible for maintaining the following in good condition and repair:

a) Common Area Improvements. The Association shall maintain or provide for the maintenance of all Common Area Improvements.

b) Street Maintenance. Lance Drive, Courtney Lane, Courtney Court, Havern Hill Court, Winchester Court and Stayford Court as shown on the Map have been dedicated and accepted by the Town on the Map for public road and utility purposes, but not for public maintenance. The Association shall maintain said streets until such time as maintenance has been accepted by the Town or other public entity.

If any of the maintenance or repair work referred to above is necessitated by the willful or negligent acts of the Owner, his/her family, guests or invitees, the costs of such special restoration or repairs shall be chargeable to the Owner as provided in Section 8.

5.02. Owners' Maintenance Obligations. Each Owner shall be responsible for maintaining his/her Lot and Unit, including all Improvements and landscaping thereon, in good condition and repair

If an Owner fails to maintain his/her Lot as provided herein in a manner which the Board reasonably deems necessary to preserve the safety, appearance and/or value of the Project, the Board may notify the Owner of the work required and request that it be done within a reasonable and specific period. If the Owner fails to perform such maintenance and/or repairs within said period, the Board shall, subject to the notice and hearing requirements set forth in the Bylaws, have the right to enter upon the Lot to cause such maintenance and/or repair work to be performed. The cost of any such repair or maintenance shall be charged to the Owner through an Individual Charge as provided in Section 8.

Notwithstanding the foregoing, in the event of an emergency arising out of the failure of an Owner to maintain his/her Lot, the Board shall have the right, through its agents and employees, to immediately enter the Lot to abate the emergency and individually charge the cost thereof to such Owner.

SECTION 6: ASSOCIATION, ADMINISTRATION, MEMBERSHIP AND VOTING

6.01. Association to Manage Project. The management of the Project shall be vested in the Association in accordance with the Project Documents, and all applicable laws, regulations and ordinances of any governmental or quasi-governmental body or agency having jurisdiction over the Project.

6.02. Membership. Each Owner shall be a Member of the Association, and shall remain a Member thereof until such time as ownership ceases for any reason, at which time that Owner's membership in the Association shall automatically cease.

6.03. Transferred Membership. Membership in the Association shall not be transferred, pledged or alienated in any way, except upon the sale or encumbrance of the Lot to which it is appurtenant, and then only to the purchaser in the case of a sale, or Mortgagee in the case of an encumbrance of such Lot. A Mortgagee does not have membership rights until it becomes an Owner by foreclosure or deed in lieu thereof. Any attempt to make a prohibited transfer is void. Any person or entity acquiring fee title or equitable title to a Lot, whether by reason of a deed from the Owner or through foreclosure, shall within 15 days of acquiring such title, inform the Association in writing of the date such title transferred and the name or names in which title is held.

6.04. Classes of Membership and Voting. The Association shall have two classes of voting Members:

Class A. Class A Members shall be all Owners except Declarant and shall be entitled to one vote for each Lot owned. When more than one person or entity owns a Lot, all such persons and entities shall be Members and the vote for such Lot shall be exercised as they among themselves determine, but in no event shall more than one vote be cast with respect to any Lot.

Class B. The Class B Member shall be the Declarant, which shall be entitled to three votes for each Lot owned.

6.05. Termination of Class B Membership. The Class B membership shall be irreversibly converted to Class A membership upon the occurrence of whichever of the following is first in time:

- a) When the total outstanding votes held by Class A Members equal the total outstanding votes held by the Class B Member; or,
- b) Not later than the second anniversary of the first conveyance of a Lot in the Project pursuant to a Final Public Report.

6.06. Approval of Members Other Than Declarant. With the exception of actions authorized for the Enforcement of Bonded Obligations, no action which requires the approval of a prescribed majority of the voting power of Members of the Association other than the Declarant shall preclude the Declarant from casting votes attributable to subdivision interests which it owns.

When a two class voting structure is in effect, any action requiring the approval by the vote or written assent of a prescribed majority of the Class A voting power shall also require the vote or written assent of a bare majority of the Class B voting power.

When a single class voting structure exists, after the conversion of Class B to Class A membership, approval of any action by the vote or written assent of a prescribed majority of the total voting power of Owners other than the Declarant shall also require the approval by vote or written assent of a bare majority of the total voting power of the Association.

6.07. Inspection of Books. All Members shall have reasonable access to inspect the books, records and financial statements of the Association, including annual audited financial statements, when such are prepared pursuant to this Declaration and subject to the same.

6.08. Commencement of Voting Rights. Voting rights attributable to Lots shall not vest until assessments against those Lots have been levied by the Association.

6.09. Co-Owner Votes. The vote for each Lot may not be cast on a fractional basis. If co-owners of a Lot are unable to agree among themselves as to how their vote shall be cast, they shall forfeit the vote on the matter in question. If only one Owner exercises the vote of a particular Lot, it shall be conclusively presumed for all purposes that he/she was acting with the authority and consent of all other Owners of the same Lot. If more than one Co-Owner exercises the vote for a particular Lot, their votes shall not be counted and shall be deemed void.

6.10. Membership Meetings. Regular and special meetings of Members and of the Board shall be held with the frequency and at the time and place and in accordance with the provisions of the Bylaws.

6.11. Notice and Place of Meetings. Written notice of each meeting of the Members shall be given by, or at the direction of, the Secretary or person authorized to call the meeting, by mailing a copy of such notice, postage prepaid, at least 10 days but not more than 90 days before such meeting to each first mortgagee requesting notice and to each Member, addressed to the Member's address last appearing on the books of the Association, or supplied by such Member to the Association for the purpose of notice. Such notice shall specify the place, day and hour of the meeting, and in the case of a special meeting, the purpose of the meeting. Meetings shall be held within the Project or at a meeting place as close thereto as reasonably possible.

6.12. Board of Directors. The affairs of the Association shall be managed by a Board of Directors, which shall be established and which shall conduct regular and special meetings according to the provisions of the Bylaws.

SECTION 7: POWERS, DUTIES AND LIMITATIONS OF THE ASSOCIATION

7.01. Powers and Duties of Association. In addition to the powers and duties enumerated in its Articles and Bylaws or elsewhere provided for herein, and without limiting the generality thereof, the Association and the Board shall have the following powers and duties:

- a) Delegation of Powers. To delegate powers to committees, officers or employees of the Association as expressly authorized by the Project Documents.
- b) Management Agent. To employ a management agent and to contract with independent contractors to perform any part of the duties and responsibilities of the Association, provided that any contract with a firm or person appointed as a managing agent or any other contract providing for services of the developer, sponsor or builder shall not exceed a 1 year term renewable by the parties for successive one year periods and shall provide for the right of the Association to terminate the same at the first annual meeting of the Members of the Association, to terminate the same for cause on 30 days written notice, and either party may terminate without cause and without payment of a termination fee on 60 days written notice.
- c) Maintenance. To maintain the Project as required by the provisions of this Declaration.
- d) Supervision. To supervise all officers, agents and employees of the Association and see that their duties are properly performed.
- e) Assessments, Liens and Fines. To levy and collect assessments and as provided in the Project Documents, impose fines or take disciplinary action against an Owner for failure to pay assessments or for violation of any provision of the Project Documents. Penalties may include, but are not limited to: fines, temporary suspension of voting rights or rights to use of the facilities on the Common Area, or other appropriate discipline for failure to comply with the governing instruments, provided that the accused Member is given notice and the opportunity to be heard by the Board with respect to the alleged violations before a decision to impose discipline is reached. Such notice and hearing procedures shall satisfy the minimum requirements of Corporations Code Section 7341.
- f) Enforcement of Project Documents. To enforce applicable provisions of the Project Documents for the ownership, management and control of the Project.
- g) Adoption of Rules. To adopt, amend and repeal reasonable rules consistent with this Declaration relating to the use of the Common Area and all facilities thereon, and the conduct of Owners and their tenants and guests with respect to the Project and other Owners. A copy of the Association Rules as adopted, amended or repealed shall be mailed or otherwise delivered to each Owner and a copy shall be posted in a conspicuous place within the Project.
- h) Records. 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 5% or more of the total voting power of the Association; keep adequate and correct books and records of account, minutes of proceedings of its Members, Board and committees, and a record of its Members giving their names, addresses and classes of membership.

i) Utilities. To acquire, provide and pay for water, sewer, garbage disposal, refuse and rubbish collection, electrical, telephone, gas and other utility services as necessary for the Common Area.

j) Granting of Easements. To grant easements where necessary for utilities and sewer facilities over the Common Area to serve the Common Area and the Lots.

k) Exercise of Easements. To exercise all easement rights as granted to it in this Declaration for the purpose of performing the maintenance authorized herein or for any other purpose reasonably related to the performance by the Association, the Association's agents or employees, or the Board of their responsibilities.

l) Contracts. To contract for goods and/or services for the Common Area facilities and interests or for the Association, subject to limitations elsewhere set forth in the Project Documents.

m) Limit Number of Guests. To limit the number of an Owner's guests who may use any facilities on the Common Area.

n) Title to Common Area. To accept title to the Common Area conveyed to it by Declarant.

o) Acquisition of Property. To acquire (by gift, purchase or otherwise), own, hold, improve, build upon, operate, maintain, convey, sell, lease, transfer, dedicate for public use or otherwise dispose of real or personal Property in connection with the affairs of the Association.

p) Budgets. To prepare budgets and financial statements for the Association as prescribed in this Declaration.

q) Legal and Accounting. To obtain and pay the cost of legal, accounting and other professional services necessary or proper for the maintenance and operation of the Project and the enforcement of the Project Documents.

r) Emergency Repair. To enter upon any privately owned Lot as necessary in connection with construction, maintenance or emergency repair for the benefit of the Common Area or the Owners in common.

s) Election of the Officers of the Board. To elect the Officers of the Board.

t) Filling Vacancies. To fill vacancies on the Board created by the removal of a Board Member.

7.02. Property Taxes and Assessments. Each Owner shall be obligated to pay any taxes or assessments levied by the County Assessor against his/her Lot and personal property. To the extent not assessed to or paid directly by the Owners, the Association shall pay all real and personal property taxes and assessments levied upon any portion of the Common Area or other property owned by the Association.

The Association shall prepare and file annual tax returns with the Federal government and the State of California and make such elections as may be necessary to reduce or eliminate the tax liability of the Association.

7.03. Insurance. The Association shall maintain casualty, liability and other insurance on behalf of the Association as required by the provisions of this Declaration.

7.04. Discharge of Liens. The Association shall discharge by payment, if necessary, any lien against the Common Area, and assess the cost thereof to the Owners responsible for the existence of said lien.

7.05. Payment of Expenses. The Association shall pay all expenses and obligations incurred by the Association in the conduct of its business including, without limitation, all licenses, taxes or governmental charges levied or imposed against the property of the Association.

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

a) Entering into a contract with a third person wherein the third person will furnish goods or services for the Common Area or the Association for a term longer than one year with the following exceptions:

i) A management contract, the terms of which have been approved in writing by the Federal Housing Administration or the Department of Veterans Affairs;

ii) 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;

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

iv) Agreements for cable television services and equipment or satellite dish television services and equipment of not to exceed five years duration provided that the supplier is not an entity in which the Declarant has a direct or indirect ownership interest of 10% or more;

v) Agreements for sale or lease of burglar alarm and/or fire alarm equipment, installation and services of not to exceed five years duration provided that the supplier or suppliers are not entities in which the Declarant has a direct or indirect ownership interest of 10% or more; or,

vi) A contract for a term not to exceed three years that is terminable by the Association after no longer than one year without cause, penalty or other obligation upon ninety days written notice of termination to the other party.

b) Incurring aggregate expenditures for capital improvements to the Common Area in any fiscal year in excess of 5% of the budgeted gross expenses of the Association for that fiscal year;

c) Selling during any fiscal year property of the Association having an aggregate fair market value greater than 5% of the budgeted gross expenses of the Association for that fiscal year;

- d) Paying compensation to Members of the Board 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; or,
- e) Filling of a vacancy on the Board created by the removal of a Director.

7.07. Action Requiring Consent. The Board shall take the following actions only upon obtaining the consent of Members as follows:

a) The Consent of two-thirds of the voting power of the Association residing in Members other than the Declarant so long as the Declarant holds or directly controls at least 25% of the voting power of the Association, and after the Declarant no longer controls 25% or more, the consent of two-thirds of the total voting power of all Members shall be necessary to do the following:

i) Borrow money, and only with the assent (by vote or written consent) of two-thirds (2/3) of Members, mortgage, pledge, deed in trust, or hypothecate any or all of its real or personal property as security for money borrowed or debts incurred;

ii) Dedicate, sell or transfer all of or any part of any interest it may have in the Common Area to any public agency, authority or utility for such purposes and subject to such conditions as may be agreed to by the Members; provided that no such dedication or transfer shall be effective unless an instrument has been signed by two-thirds (2/3) of the Members agreeing to such dedication, sale or transfer, and any sale of all or substantially all of the Association's assets must be in compliance with Section 7.07(b) below; or

iii) Participate in mergers and consolidations with other non-profit corporations organized for the same purpose or annex additional residential property, provided that any merger, consolidation or such annexation shall have the assent by vote of two-thirds (2/3) of Members or by the written consent of such Members, excluding Declarant.

b) The consent of 100% of the Members shall be required so long as there is any Lot, parcel, area, apartment or Unit for which the Association is obligated to provide management, maintenance, preservation or control for the Association to do the following:

- i) Transfer all or substantially all of its assets; or,
- ii) File a certificate of dissolution.

7.08. Dispute Resolutions. In any dispute in which the Association is a party, the Association may perform any act reasonably necessary to resolve any such civil claim or action through dispute resolution proceedings found in this Section 7.

7.09. Dispute Notification and Resolution Procedure (Owner Disputes). Any disputes between Owners regarding their respective rights and duties under this Declaration shall be resolved in accordance with the provisions of this Section. This does not apply to: (i) disputes between the Association and any Owner or (ii) Declarant disputes that are covered under the provisions of the Section entitled "Dispute Notification and Resolution Procedure (Declarant Disputes)".

If there is a dispute between Owners regarding their rights or duties under this Declaration, either party may submit a written request to the other party to have the dispute resolved in accordance with the provisions of this Section (the "Resolution Notice"). No later than 20 business days following the receipt of the Resolution Notice by the other party, the Owners shall meet and negotiate in good faith to resolve the dispute. If a party refuses or fails to meet for any reason or if the dispute cannot be resolved as a result of the meeting, the dispute shall be resolved in accordance with the procedures described in subparagraphs a) and/or b) below in that order.

a) **Mediation.** If the dispute has not been resolved within 30 days of receipt of the Resolution Notice, the dispute shall be submitted to mediation pursuant to the mediation procedures adopted by the American Arbitration Association or any successor thereto or to any other entity offering mediation services that is acceptable to the parties. Either party may initiate the mediation procedures. If either party fails or refuses to participate in mediation for any reason, the other party may commence binding arbitration as described in subparagraph b). The arbitrator shall take into account a party's failure or refusal to mediate in awarding costs and attorneys' fees.

The mediator has discretion to conduct the mediation in the manner in which the mediator believes is most appropriate for reaching a settlement of the dispute. The mediator is authorized to conduct joint and separate meetings with the parties and to make oral and written recommendations for settlement. Whenever necessary, the mediator may also obtain expert advice concerning technical aspects of the dispute, provided the parties agree and assume the expenses of obtaining such advice. The mediator does not have the authority to impose a settlement on the parties.

b) **Binding Arbitration.** If the parties do not resolve the dispute pursuant to the procedures described in subparagraph a), either party may commence binding arbitration under the American Arbitration Association or any other arbitration provider mutually acceptable to the parties. The following rules and procedures shall apply in all cases unless the parties agree otherwise:

- i) the proceedings shall be heard in the County;
- ii) the arbitrator need not be an attorney or retired judge; but, if not, the arbitrator must have at least five years' experience in relevant real estate matters;
- iii) the arbitrator may require one or more pre-hearing conferences;
- iv) the parties shall be entitled to discovery to the extent authorized under Code of Civil Procedure section 1283.05, and the arbitrator shall oversee discovery and may enforce all discovery orders in the same manner as any trial court judge;
- v) the arbitrator shall apply the rules of law, including the rules of evidence, unless expressly waived by both parties;
- vi) at the request of either party, a stenographic record of the hearing shall be made, provided that the record shall remain confidential except as may be necessary for any appeals (the requesting party shall pay the stenographic fees, which shall be included as court costs);

vii) the arbitrator's statement of decision shall contain findings of fact and conclusions of law to the extent applicable, and the arbitrator's decision shall be rendered within 30 days of the conclusion of the hearing;

viii) administration of the arbitration shall be by a neutral and impartial person(s);

ix) the neutral and impartial individual(s) who serves as arbitrator(s) shall be appointed, with the arbitrator(s) to be appointed within a specified period of time, which in no event shall be more than sixty days from the administrator's receipt of written request from a party to arbitrate the claim or dispute. In selecting the arbitrator, the provisions of Section 1297.121 of the Code of Civil Procedure shall apply. An arbitrator may be challenged for any of the grounds listed therein or in Section 1297.124 of the Code of Civil Procedure;

x) the arbitrator, in his/her discretion, may award costs and/or attorneys' fees to the party that the arbitrator determines is the prevailing party;

xi) the arbitrator's decision may include monetary damages and/or equitable relief; and

xii) the arbitrator's decision shall be final and binding on the parties unless the arbitrator has made an error of law that is apparent in the face of the decision and that results in a substantial injustice to either party; errors of fact are not grounds to set aside the award.

The arbitrator's decision may be enforced in any court of competent jurisdiction.

7.10. Dispute Notification and Resolution Procedure (Declarant Disputes). Any disputes between the Association (or any Owners) and the Declarant or any director, officer, partner, employer, subcontractor or agent of the Declarant relating to this Declaration, the use or condition of the Property, and/or the design, construction and installation of any Improvements located thereon shall be subject to the following provisions:

a) **Notice.** Any person with a claim against the Declarant or any director, officer, partner, employer, subcontractor or agent thereof (collectively the "Declarant" for purposes of this section) shall notify the Declarant in writing of the claim, which writing shall describe the nature of the claim and the proposed remedy (the "Claim Notice").

b) **Right to Inspect and Right to Corrective Action.** Within a reasonable period after receipt of the Claim Notice, which period shall not exceed 60 days, the Declarant and the claimant shall meet at a mutually-acceptable place within the Project to discuss the claim. At such meeting or at such other mutually-agreeable time, Declarant and Declarant's representatives shall have full access to the Property that is subject to the claim for the purposes of inspecting the Property. The parties shall negotiate in good faith in an attempt to resolve the claim. If the Declarant elects to take any corrective action, Declarant and Declarant's representatives and agents shall be provided full access to the Project to take and complete corrective action.

If the claim is subject to the provisions of Civil Code Section 1375, as it may be amended from time to time, compliance with the procedures of Civil Code Section 1375 shall satisfy the requirements of this section.

c) **Mediation.** If the parties cannot resolve the claim pursuant to the procedures described above (including, if applicable, Civil Code section 1375 procedures), the matter shall be submitted to mediation using a mediator that is acceptable to the parties. If the parties cannot agree on a mediator, any party may petition the superior court of the county in which the Project is located for appointment of the mediator by the presiding judge. No person shall serve as a mediator in any dispute in which the person has any financial or personal interest in the result of the mediation, except by the written consent of all parties. Prior to accepting any appointment, the prospective mediator shall disclose any circumstances likely to create a presumption of bias or prevent a prompt commencement of the mediation process.

Within ten days of the selection of the mediator, the parties shall submit brief memoranda setting forth their positions with regard to the issues that need to be resolved. The mediator shall have the right to schedule a pre-mediation conference and the parties shall attend unless otherwise agreed. The mediation shall be commenced within ten days following the submittal of the memoranda and shall be concluded within 15 days from the commencement of the mediation unless the parties mutually agree to extend the mediation period. The mediation shall be held in the county in which the Project is located or such other place as is mutually acceptable to the parties.

The mediator has discretion to conduct the mediation in the manner in which the mediator believes is most appropriate for the dispute. The mediator is authorized to conduct joint and separate meetings with the parties and to make oral and written recommendations for settlement. Whenever necessary, the mediator may also obtain expert advice concerning technical aspects of the dispute, provided the parties agree and assume the expenses of obtaining such advice. The mediator does not have the authority to impose a settlement on the parties.

Prior to the commencement of the mediation session, the mediator and all parties to the mediation shall execute an agreement pursuant to California Evidence Code section 1152.5(c) or successor statute in order to exclude the use of any testimony or evidence produced at the mediation in any subsequent dispute resolution forum, including, but not limited to, court proceedings, reference proceedings or arbitration hearings. Pursuant to California Evidence Code section 1152.5(a), the agreement shall specifically state:

"Evidence of anything said or of any admission made in the course of the mediation is not admissible evidence, and disclosure of any such evidence shall not be compelled in any civil action in which, pursuant to law, testimony can be compelled to be given. Unless the document provides otherwise, no document prepared for the purpose of, or in the course of, or pursuant to, the mediation, or copy thereof, is admissible in evidence; and disclosure of any such document shall not be compelled in any civil action in which, pursuant to law, testimony can be compelled to be given."

Persons other than the parties, the representatives and the mediator may attend mediation sessions only with the permission of the parties and the consent of the mediator. Confidential information disclosed to a mediator by the parties or by witnesses in the course of the mediation shall not be divulged by the mediator. All records, reports or other documents received by the mediator while serving in such capacity shall be confidential. There shall be no stenographic record of the mediation process.

The expenses of witnesses for either side shall be paid by the party producing such witnesses. All other expenses of the mediation, including required traveling and other expenses of the mediator, and the expenses of any witnesses, or expert advice produced at the direct request of the mediator, shall be borne equally by the parties unless they agree otherwise.

d) Judicial Reference. If the parties cannot resolve the claim pursuant to the procedures described in the subparagraph entitled "Mediation" above, the parties shall submit the dispute to judicial reference using a general referee acceptable to the parties; or, if the parties cannot agree, any party may petition the superior court of the county in which the Project is located for appointment of the general referee by the presiding judge for resolution under Code of Civil Procedure sections 638 through 645.1 or any successor statutes thereto.

The general referee shall have the authority to try any and all issues in the proceeding, whether of fact or law, and to report a statement of decision. Neither the referee nor any party shall have the right to impanel a jury. The following rules and procedures shall apply in all cases unless the parties agree otherwise:

- i) the proceedings shall be heard in the county in which the Project is located;
- ii) the referee shall be an attorney or retired judge with at least five years experience in real estate matters;
- iii) any dispute regarding the selection of the referee shall be resolved by the entity providing the reference services or, if no entity is involved, by the court with appropriate jurisdiction;
- iv) the referee may require one or more pre-hearing conferences;
- v) the parties shall be entitled to discovery, and the referee shall oversee discovery and may enforce all discovery orders in the same manner as any trial court judge;
- vi) the referee shall have the power to hear and dispose of motions in the same manner as a trial court judge;
- vii) the referee shall apply the rules of law, including the rules of evidence, unless expressly waived by both parties;
- viii) a stenographic record of the hearing shall be made, provided that the record shall remain confidential except as may be necessary for post-hearing motions and any appeals;
- ix) the referee's statement of decision shall contain findings of fact and conclusions of law to the extent applicable;
- x) the referee shall have the authority to rule on all post-hearing motions in the same manner as a trial judge;
- xi) each party retains the same appeal rights of the referees' decision as if the decision were rendered by a trial court judge; and,
- xii) the referee shall determine the allocation of fees.

If the Association and/or Owner has complied with the requirements of subparagraphs a), b), c) and d) above and Declarant or any other party elects not to participate in the judicial reference proceeding because all necessary and appropriate parties will not participate, the Association, any Owner or Declarant

may bring an action in any court of competent jurisdiction to resolve the dispute. The Association and each Owner covenants that each shall forbear from commencing any litigation against the Declarant without complying with the procedures described in subparagraphs a), b), c) and d) above. If the Association or any Owner breaches the foregoing covenant, Declarant may obtain an appropriate order compelling the Association and/or Owner to comply with the procedures described in subparagraphs a), b), c) and d). The procedures set forth in subparagraph a), b), c) and d) above shall not apply to any action taken by the Association against Declarant for delinquent assessments, which shall be governed by the Section entitled "Assessments", or in any action involving any Common Area Improvement bonds, which shall be governed by the provisions of the Section entitled "Enforcement of Bonded Obligations". Furthermore, nothing herein shall prevent the Association or any Owner from commencing any legal action which in the good faith determination of the Board or Owner is necessary to preserve any Association's or Owner's rights under any applicable statute of limitations, provided that the Association or Owner shall take no further steps in prosecuting the action until it has complied with the procedures described in subparagraph a), b), c) and d).

Notwithstanding any other provision herein to the contrary, in any dispute between the Association and/or any Owner and the Declarant, each party shall bear its own attorneys' fees. The referee may award costs to the party that the referee determines prevailed in the proceeding.

Any and all communications by and between the parties, whether written or oral, which are delivered by the parties or their attorneys or other representatives in an effort to settle the claim shall be considered communications undertaken in the course of effecting a settlement or compromise and as such shall not be admissible as the admission on the part of any party or any representative or agent of the party to be utilized for any such purpose in any action or proceeding.

Nothing herein shall be considered to reduce or extend any applicable statute of limitations.

7.11. Civil Action Against Declarant. Not earlier than 30 days prior to the filing of any civil action by the Association against the Declarant for alleged damage to the Common Areas, alleged damage to the Separate Interest that the Association is obligated to maintain or repair, or alleged damage to the Separate Interests that arises out of, or is integrally related to, damage to the Common Areas or Separate Interest that the Association is obligated to maintain or repair, the Board shall provide written notice to each Member of the Association. This notice shall specify all of the following:

- a) That a meeting will take place to discuss problems that may lead to the filing of a civil action;
- b) The options, including civil actions, that are available to address the problems;
- c) The time and place of this meeting; and,
- d) Notwithstanding subdivision a), if the Association has reason to believe that the applicable statute of limitations will expire before the Association files the civil action, the Association may give the notice, as described above, within 30 days after the filing of the action.

7.12. Inspection and Maintenance Guidelines. The Board shall adopt inspection and maintenance guidelines for the periodic inspection and maintenance of the Common Area Improvements.

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The Board periodically and at least once every two years, shall review and update the inspection and maintenance guidelines.

The Board shall take all appropriate steps to implement and comply with the inspection and maintenance guidelines.

SECTION 8: ASSESSMENTS

8.01. Agreement to Pay; Personal Obligation. Declarant, and its successor in interest, if any, for each Lot owned by it, and each Owner, by acceptance of a deed thereto, whether or not it shall be so expressed in such deed, covenants and agrees to pay to the Association: a) Regular Annual Assessments; b) Special Assessments for capital improvements or unusual expenses to be established and collected as hereinafter provided (Regular Annual Assessments and Annual Assessments are, for convenience of reference collectively referred to as "Assessments"); and, c) Individual Charges levied against an individual Owner, to be established and collected as provided in this Declaration and in the other Project Documents.

All Assessments and Individual Charges, together with any late charges, interest, collection costs and reasonable attorney's fees incurred in collecting delinquent Assessments and Individual Charges, shall be the obligation of the Owner of such Lot at the time when the Assessments or Individual Charges fell due. If more than one person or entity was the Owner of a Lot at the time the Assessments or Individual Charges fell due, the obligation to pay each Assessment and Individual Charge shall be joint and several. The obligation for delinquent Assessments and Individual Charges shall not pass to any transferee unless expressly assumed by him/her. No Owner may exempt him/herself from liability for his/her Assessments or Individual Charges obligation by waiver of the use or enjoyment of any of the Project.

If an Owner has a dispute with the Association regarding an assessment levied by the Association, the Owner may pay the assessment under protest in accordance with the procedures set forth in Civil Code section 1366.3 or any successor statute thereto.

8.02. Purpose of Assessments. The assessments levied by the Association shall be used exclusively for paying the costs of and creating reserves for the costs of all obligations which the Association is authorized or obligated to perform as described in this Declaration.

8.03. Common Facility Assessment Exemption. The Declarant and any other Owner of a Lot may be exempt from the payment of that portion of any assessment which is for the purpose of defraying expenses and reserves directly attributable to the existence and use of a common facility that is not complete at the time assessments commence. Any exemption from the payment of assessments shall be in effect only until the earlier of the following events:

- a) A Notice of Completion of the common facility has been recorded; or,
- b) The common facility has been placed into use.

8.04. Regular Annual Assessments and Special Assessments. The provisions of this subsection entitled "Regular Annual and Special Assessments" are intended to comply with Civil Code Sections 1366(a) and (b) in effect as of the date of recordation of this Declaration. If said Civil Code section are amended in any manner, the provisions of this subsection automatically shall be amended in the same manner, provided that if Section 1366(b) is repealed and no successor statute is enacted with respect to restrictions on assessments, the provisions of this subsection shall remain in full force and effect. Civil Code sections 1366(a) and (b) may be amended by the State Legislature, and the Board should confirm the current statutory requirements.

Regular Annual Assessments shall be payable in equal monthly installments, due on the first day of each month, unless the Board adopts some other basis for collection.

Notwithstanding any other provisions contained in this section, the Board may increase assessments necessary for emergency situations pursuant to Section 1366 of the Civil Code.

8.05. Quorum. For the purposes of establishing "Assessments" above, a quorum means more than 50% of the Members of the Association. In addition, any meeting or election of the Association for purposes of complying with the subsection above entitled "Regular Annual Assessments and Special Assessments" shall be conducted in accordance with Chapter 5 (commencing with Section 7510) of Part 3, Division 2 of Title 1 of the Corporations Code and Section 7613 of the Corporations Code.

8.06. Equal Division of Regular and Special Assessments. Regular and Special Assessments shall be levied against each Lot (and its Owner) equally, based on a fraction, the numerator of which is one and the denominator of which is the total number of Lots in the Project.

8.07. Individual Charges. Individual charges may be levied against a Member as follows:

a) As a monetary penalty imposed by the Association as a disciplinary measure for the failure of a Member to comply with the Project Documents; or,

b) As a means of reimbursing the Association for costs incurred by the Association for the repair of damage to Common Areas and facilities for which the Member was responsible, or to otherwise bring the Member and his/her Lot into compliance with the Project Documents. Such individual charges (other than reasonable late charges, interest, costs of collection and reasonable attorneys' fees related to the collection of Assessments) are not enforceable through the lien provisions of the Project Documents. All individual charges shall comply with California Civil Code Section 1366 to the extent that it is applicable.

8.08. Delinquent Assessments. Regular and Special Assessments levied pursuant to this Declaration are delinquent 15 days after the date they become due. If an assessment is delinquent, the association may recover all of the following:

a. Reasonable costs incurred in collecting the delinquent assessment, including reasonable attorney's fees.

b. A late charge not exceeding ten percent of the delinquent assessment or ten dollars, whichever is greater.

c. Interest on all sums imposed in accordance with this section, including the delinquent assessment, reasonable costs of collection, and late charges, at an annual percentage rate not to exceed twelve percent interest, commencing thirty days after the assessment becomes due.

8.09. Commencement of Assessments and Individual Charges. The right to levy Assessments and Individual Charges shall commence as to all Lots on the close of escrow for the first conveyance of a Lot. Regular Assessments shall commence as to all Lots on the first day of the month following the first conveyance of a Lot under authority of a Final Public Report. Thereafter, Regular Assessments shall be levied on the first day of each month.

8.10. Assessment Lien. Each delinquent Assessment or installment shall be a charge and a continuing lien upon the Lot against which each Assessment is made, the lien to become effective upon recordation of a

Notice of Delinquent Assessment, subject to any costs of collection (including attorney's fees), late charges, and interest, by taking the following steps:

(a) At least 30 days prior to recording a lien upon the Owner's Lot to collect a delinquent assessment, the Association shall notify the Owner in writing by certified mail of the following ("Delinquency Notice"):

(1) A general description of the collection and lien enforcement procedures of the Association and the method of calculation of the amount, a statement that the Owner of the Lot has the right to inspect the Association records pursuant to section 8333 of the Corporations Code, and the following statement in 14-point boldface type, if printed, or in capital letters, if typed: "IMPORTANT NOTICE: IF YOUR SEPARATE INTEREST IS PLACED IN FORECLOSURE BECAUSE YOU ARE BEHIND IN YOUR ASSESSMENTS, IT MAY BE SOLD WITHOUT COURT ACTION".

(2) An itemized statement of the charges owed by the Owner including items on the statement which indicate the amount of any delinquent assessments, the fees and reasonable costs of collection, reasonable attorneys' fees, and any late charges and interest if any.

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

(4) The right to request a meeting with the Board.

(b) Any payments made by the Lot Owner toward the delinquent assessment shall first be applied to the assessments owed; and only after the assessments owed are paid in full shall the payments be applied to the fees and the costs of collection, attorney's fees, late charges and/or interest. When an Owner makes a payment, the Owner may request a receipt and the Association shall provide it. The receipt shall indicate the date of payment and the person who received it. The Association shall provide a mailing address for overnight payment of assessments.

(1) An Owner may dispute the delinquent assessment by submitting to the Board a written explanation of the reason(s) for his or her dispute. The Board shall respond in writing to the Owner within 15 days (of the date of the postmark) of the explanation if the explanation is mailed within 15 days of the postmark of the Delinquency Notice.

(2) An Owner may submit a written request to meet with the Board to discuss a payment plan for the delinquent assessment. The Association shall provide the Owners the standards for payment plans if any exist. The Board shall meet with the Owner in executive session within 45 days of the postmark of the request, if the request is mailed within 15 days of the date of the postmark of the Delinquency Notice unless, there is no regularly scheduled Board meeting within that period, in which case the Board may designate a committee of one or more Members to meet with the Owner.

(c) The amount of the assessment, plus any costs of collection, late charges and interest assessed, shall be a lien on the Owner's Lot from and after the time the Association causes to be recorded with the County recorder of the County in which the Lot is located a notice of delinquent assessment. Said notice shall state the amount of assessment and other sums imposed in accordance with Civil Code Section 1366, a legal description of the Owner's interest in the Project against which the assessment and other sums are levied, and the name of the record owner of the Owner's interest in the Project against which the lien is

imposed in order for the lien to be enforced by nonjudicial foreclosure, (as provided herein). The notice of delinquent assessment shall state the name and address of the trustee authorized by the Association to enforce the lien by sale. The notice of delinquent assessment shall be signed by any officer of the Association or by the person designated by the Association for that purpose, and mailed in the manner set forth in Civil Code Section 2924b to all record owners of the Owner's interest in the Project no later than 10 calendar days after recordation.

Within 21 days of the payment of the sums specified in the notice of delinquent assessments, the Association shall record or cause to be recorded in the office of the County recorder a lien release or notice of rescission and provide the Lot Owner of a copy of the lien release, or a notice that the delinquent assessment has been satisfied.

A monetary charge imposed by the Association: (i) as a means of reimbursing the Association for costs incurred by the Association in the repair of damage to Common Area Improvements or landscaping for which the Member or the Member's guests or tenants were responsible; or (ii) as a disciplinary measure for failure of a Member to comply with the governing instruments (except for the late payments), may not be characterized nor treated as an assessment that may become a lien against the Member's Lot enforceable by the sale of the interest under Civil Code Sections 2924, 2924b and 2924c.

(d) A lien created herein shall be prior to all other liens recorded subsequent to the notice of assessment, except as described in the Section entitled "Insurance, Destruction, Condemnation".

(e) Subject to the limitations of this Section, after the expiration of 30 days following the recording of a lien therein created, the lien may be enforced in any manner permitted by law, including sale by the court, sale by the trustee designated in the notice of delinquent assessment, or sale by a trustee substituted pursuant to Civil Code section 2934a. Any sale by the trustee shall be conducted in accordance with Civil Code Sections 2924, 2924b and 2924c applicable to then exercise of powers of sale in mortgages and deeds of trusts. The fees of a trustee may not exceed the amounts prescribed in Civil Code Sections 2924c and 2924d.

(f) If it is determined that a lien previously recorded against a Lot was recorded in error, the party who recorded the lien, within 21 calendar days, shall record or cause to be recorded in the office of the County recorder in which the notice of delinquent assessment is recorded, a lien release or notice of rescission and provide the Lot Owner with a declaration that the lien filing or recording was in error and a copy of the lien release or notice of rescission.

(g) If the Association fails to comply with the procedures set forth in this Section, prior to recording a lien, the Association shall recommence the required notice process. Any costs associated with recommencing the notice process shall be borne by the Association and not by the Lot Owner.

The provisions of this Section are intended to comply with the requirements of Civil Code Section 1367.1 in the effect as of January 1, 2003. If these sections are amended or rescinded in any manner the provisions of this Section automatically shall be amended or rescinded in the same manner. Civil Code Section 1367.1 may have been amended by the State Legislature, and the Board should confirm the current statutory requirements.

SECTION 9: ENFORCEMENT OF RESTRICTIONS

9.01. General. The Association or any Owner shall have the right to enforce compliance with the Project Documents in any manner provided by law or in bringing an action for damages, an action to enjoin the violation or to specifically enforce the provisions of the Project Documents, to enforce the liens provided for herein (except that no Owner shall have the right to enforce independently of the Association any Assessment, Individual Charge or Assessment lien created herein) and any statutory lien provided by law, including the foreclosure of any such lien and the appointment of a receiver for an Owner and the right to take possession of the Lot in the manner provided by law. In the event the Association or any Owner shall employ an attorney to enforce the provisions of the Project Documents against any Owner, the prevailing party shall be entitled to reasonable attorneys' fees and costs in addition to any other amounts due as provided for herein. All sums payable hereunder by an Owner shall bear interest at the maximum rate permitted by law from the due date, or if advanced or incurred by the Association or any other Owner pursuant to authorization contained in the Project Documents, commencing 15 days after repayment is demanded. All enforcement powers of the Association shall be cumulative. Failure by the Association or any Owner to enforce any covenant or restriction herein contained shall in no event be deemed a waiver of the right to do so thereafter.

9.02. Specific Enforcement Rights. In amplification of, and not in limitation of, the general rights specified in Section 9.01 above, the Association, or its authorized representative, shall have the following rights:

a) Enforcement by Sanctions.

i) Limitation. The Association shall have no power to cause a forfeiture or abridgement of an Owner's right to the full use and enjoyment of his/her Lot on account of a failure by the Owner to comply with provisions of the Project Documents except where the loss or forfeiture is the result of the judgment of a court or a decision arising out of arbitration or on account of a foreclosure or sale under a power of sale for failure of the Owner to pay assessments levied by the Association.

ii) Disciplinary Action. The Association may impose monetary penalties, temporary suspensions of a reasonable duration (not to exceed 30 days per violation) of an Owner's rights as a Member of the Association or other appropriate discipline for failure to comply with the Project Documents. Notwithstanding the foregoing, the Association shall have no right to interfere with an Owner's right of ingress to or egress from his/her Lot.

If the Board adopts a policy imposing monetary penalties, the Board shall adopt and distribute to each Member, by personal delivery or first-class mail, a schedule of the monetary penalties that may be assessed. The Board may change the schedule from time to time and shall distribute a notice of such changes to the Members in the same manner as the schedule of penalties. The provisions of this paragraph are intended to comply with requirement of Civil Code section 1363(g) as presently in effect. If the provisions of section 1363(g) are amended or repealed in any manner, this paragraph automatically shall be amended or repealed in the same manner. Civil Code section 1363(g) may be amended by the State Legislature, and the Board should confirm the current statutory requirements.

If the Board meets to consider or impose discipline upon a Member, the Board shall notify the Member in writing, by either personal delivery or first-class mail, at least 10 days prior to the meeting. The notification shall contain, at minimum, the date, time, and place of the meeting, the nature of

the alleged violation for which a Member may be disciplined, and a statement that the Member has a right to attend and may address the Board at the meeting. The Board of the Association shall meet in executive session if requested by the Member being disciplined. In such session, the Member, and, if applicable, the Member's counsel, and the Association's counsel shall be entitled to attend. In addition, the Board may interview witnesses and other appropriate parties to the disciplinary proceeding in executive session. If the Board imposes discipline on a Member, the Board shall provide the Member a written notification of the disciplinary action, by either personal delivery or first-class mail, within 15 days following the action. A disciplinary action shall not be effective against a Member unless the Board fulfills the requirements of this subsection. The provisions of this paragraph are intended to comply with requirement of Civil Code section 1363(h) presently in effect. If provisions of section 1363(h) are amended or repealed in any manner, this paragraph automatically shall be amended or repealed in the same manner. Civil Code section 1363(h) may be amended by the State Legislature, and the Board should confirm the current statutory requirements.

Before disciplinary action authorized under this sub-section may be imposed by the Association, the Owner against whom such action is proposed to be taken shall be given notice and the opportunity to be heard in accordance with Section 7341 of the Corporations Code, as set forth in Section 12 of the Bylaws.

b) Suit to Collect Delinquent Assessments or Individual Charges. A suit to recover a money judgment for unpaid Assessments or unpaid Individual Charges, together with late charges, interest, costs and reasonable attorneys' fees shall be maintainable by the Association. In the case of unpaid Assessments, such suit shall be maintainable without foreclosing or waiving the lien securing such unpaid Assessments.

c) Transfer by Sale or Foreclosure. In a sale or transfer of a Lot, the obligation for delinquent Assessments or Individual Charges shall not pass to the transferee unless expressly assumed by him/her. The sale or transfer of any Lot shall not affect the Assessment lien, nor the right of the Association to impose a lien for Assessments which became due prior to such sale or transfer. However, the sale or transfer of any Lot pursuant to the exercise of a power of sale or judicial foreclosure involving a default under a First Mortgage shall extinguish the lien and right to lien for Assessments which became due prior to such sale or transfer. No transfer of the Lot as the result of a foreclosure or exercise of a power of sale shall relieve the new Owner, whether it be the former beneficiary of the First Mortgage or another person, from liability for any Assessments or individual charges thereafter becoming due or from the lien thereof.

d) Waiver of Homestead Benefits. Each Owner to the extent permitted by law, waives, to the extent of any liens created pursuant to the Project Documents, the benefit of any homestead or exemption laws of California in effect at the time any Assessment becomes due.

SECTION 10: BUDGETS, FINANCIAL STATEMENTS AND BANK ACCOUNTS

10.01. Proposed Budget. Not less than 75 days before the beginning of each fiscal year, the Board shall prepare or cause to be prepared, a proposed pro forma budget for the forthcoming fiscal year. Any Owner or Mortgagee may make written comments to the Board with respect to said Pro Forma Operating Statement. The pro forma operating statement shall be prepared consistently with the prior fiscal year's operating statement and shall include adequate reserves for contingencies and for maintenance, repair and replacement of the Common Area improvements and Association personal property likely to need maintenance, repair or replacement in the future.

10.02. Adopt Budget. Not more than 75 days nor less than 60 days before the beginning of each fiscal year, the Board shall meet to review the proposed pro forma budget, any written comments received and any other information available to it and, after making any adjustments that the Board deems appropriate, shall adopt the budget and establish the Regular Assessment for the forthcoming fiscal year.

10.03. Budgets and Financial Statements. The following financial and related information shall be regularly prepared and distributed by the Board to all Members of the Association in accordance with section 1365 of the Civil Code:

a) Budget. A copy of the operating budget shall be annually distributed not less than 45 days and not more than 60 days prior to the beginning of the Association's fiscal year, which shall include all of the following:

i) The estimated revenue and expenses of the Association on an accrual basis;

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

(1) The current estimated replacement cost, estimated remaining life and estimated useful life of each major component.

(2) As of the end of the fiscal year for which the study was prepared:

(a) The current estimate of cash reserves necessary to repair, replace, restore or maintain the major components; and,

(b) The current amount of accumulated cash reserves actually set aside to repair, replace, restore or maintain the major components; and,

(3) The percentage that the amount in (b) of subparagraph 2 is to the amount in a) of subparagraph (2).

iii) A statement as to whether the Board 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 therefor; and,

iv) A general statement setting forth the procedures used by the Board in the calculation and establishment of those reserves to defray the future repair, replacement or additions to those major components for which the Association is responsible.

The summary of the Association's reserves disclosed pursuant to paragraph ii) shall not be admissible in evidence to show improper financial management of an Association, provided that other relevant and competent evidence of the financial condition of the Association is not made inadmissible by this provision.

b) Financial Statements. A review of the financial statements of the Association shall be prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy for any fiscal year in which the gross income to the Association exceeds seventy-five thousand dollars (\$75,000). A copy of the review of the financial statements shall be distributed within 120 days after the close of each fiscal year.

In lieu of the distribution of the operating budget referred to in subsection "a)" above entitled "Budget", the Board may elect to distribute a summary of the proforma operating budget to all Members of the Association with a written notice (in at least 10-point bold type on the front page) that the budget is available at the business office of the Association, or at a location within the Project's boundaries, and that copies will be provided upon request and at the expense of the Association. The Association must mail such copies of the pro forma operating budget, by first-class United States mail to any Member requesting same at the expense of the Association, which copies shall be mailed within five days from receipt of such request.

c) Statement of Enforcement Policies. In addition to financial statements, the Board shall annually distribute within 60 days prior to the beginning of the Association's fiscal year, a statement of the Association's policies and practices in enforcing lien right or other legal remedies against Members for default in the payment of regular and special assessments including the recording and foreclosing of liens against Members' Lots.

10.04. Summary of General Liability, Earthquake and Flood Policies. A summary of the Association's General Liability, Earthquake and Flood policies (individually and collectively referred as the "Policy" or "Policies") shall be distributed to all Members within 60 days preceding the beginning of the Association's fiscal year. The summary shall include the following information on the Policies:

- a) The name of the insurer;
- b) The type of insurance;
- c) The Policy limits of the insurance;
- d) The amount of deductibles, if any; and
- e) The Association shall, as soon as reasonably practical, notify its Members by first-class mail if any of the Policies have been canceled and not immediately renewed or restored or if there is a significant change, such as a reduction in coverage or limits, or an increase in the deductible for any Policy.

This summary shall contain, in at least 10-point boldface type, the following statement:

"This summary of the Association's policies of insurance provides only certain information as required by subdivision (e) of section 1365 of the Civil Code and should not be considered a substitute for the complete policy terms and conditions contained in the actual policies of insurance. Any member, upon request and reasonable notice, may review the Association's insurance policies and, upon request and payment of reasonable duplication charges, obtain copies of those policies. Although the Association maintains the policies of insurance specified in this summary, the Association's policies of insurance may not cover your property, including personal property, or real property improvements to or around your dwelling, or personal injuries or other losses that occur within or around your dwelling. Even if a loss is covered, you may nevertheless be responsible for paying all or a portion of any deductible that applies. Association members should consult with their individual insurance brokers or agent for appropriate additional coverage."

The provisions of this Sub-section are intended to comply with the requirements of Civil Code Sections 1354(i), 1363.05(e) and 1365 in effect as of the date of recordation of this Declaration. If these Civil Code Sections are amended or repealed in any manner, the provisions of this Sub-section shall be amended or repealed in the same manner. Civil Code Sections 1354(i), 1363.05(e) and 1365 may be amended by the State Legislature, and the Board should confirm the current statutory requirements.

10.05. Reserves and Reserves Study.

a) Reserves. Each annual regular assessment shall include a portion for reserves in such amount as the Board in its discretion considers appropriate to meet the cost of the future repair, replacement or additions to the major components that the Association is obligated to maintain and repair. Reserve funds may not be expended for any purpose other than the repair, restoration, replacement, or maintenance of, or litigation involving the repair, restoration, replacement, or maintenance of, major components which the Association is obligated to maintain.

b) Transfer of Reserves. Notwithstanding the foregoing, the Board may authorize the temporary transfer of money from a reserve fund to the Association's general operating fund to meet short-term cash-flow requirements or other expenses, provided the Board has made a written finding, recorded in the Board's minutes, explaining the reasons that the transfer is needed, and describing when and how the money will be repaid to the reserve fund. The transferred funds shall be restored to the reserve fund within one year of the date of the initial transfer, except that the Board may, upon making a finding supported by documentation that a temporary delay would be in the best interests of the Project, temporarily delay the restoration until the time which the Board reasonably determines to be necessary. The Board shall exercise prudent fiscal management in maintaining the integrity of these funds and shall, if necessary, levy a Special Assessment to recover the full amount of the expended funds within the time limits required herein. The Special Assessment is subject to the Assessment increase restrictions set forth in Subsection 8.4 (entitled "Regular Annual Assessments and Special Assessments") and Civil Code Section 1366(b). The Board may, at its discretion, extend the date the payment on the Special Assessment is due. Any extension shall not prevent the Board from pursuing any legal remedy to enforce the collection of an unpaid Special Assessment.

When the decision is made to use reserve funds or to temporarily transfer money from the reserve fund to pay for litigation, the Association shall notify the Members of the Association of that decision in the next available mailing to all Members pursuant to Section 5016 of the Corporations Code, and of the availability of an accounting of those expenses. Unless the governing documents impose

more stringent standards, the Association shall make an accounting of expenses related to the litigation on at least a quarterly basis. The accounting shall be made available for inspection by Members of the Association at the Association's office.

c) **Reserve Study.** At least once every three years, the Board shall cause to be conducted a reasonably competent and diligent visual inspection of the accessible areas of the major components which the Association is obligated to repair, replace, restore or maintain as a part of a study of the reserve account requirements of the Project if the current replacement value of the major components is equal to or greater than one-half of the gross budget of the Association, which excludes the Association's reserve account for that period. The Board shall review this study annually and shall consider and implement necessary adjustments to the Board's analysis of the reserve account requirements as a result of that review.

The study shall, at a minimum, include:

i) 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;

ii) Identification of the probable remaining useful life of the components identified in subparagraph (i) as of the date of the study;

iii) An estimate of the cost of repair, replacement, restoration or maintenance of each Major Component identified in subparagraph (i) during and at the end of its useful life; and,

iv) 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.

As used herein, "reserve accounts" means moneys that the Board has identified for use to defray the future repair or replacement of, or additions to, those major components which the Association is obligated to maintain; and "reserve account requirements" means the estimated funds which the Board has determined will be 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 provisions of the Subsection entitled "Reserves and Reserves Study" are intended to comply with the requirements of Civil Code Section 1365.5(c) and (d) as presently in effect. If these Civil Code Sections are rescinded or amended in any manner, the provisions of the Subsection automatically shall be rescinded or amended in the same manner. Civil Code Section 1365.5(c) and (d) may be amended by the State Legislature, and the Board should confirm the current statutory requirements.

10.06. **Bank Accounts.** The Association shall deposit all funds collected from Owners pursuant to the Section herein entitled "Assessments" and all other amounts collected by the Association as follows:

a) **General.** All funds shall be deposited in a separate bank account ("General Account") with a bank located in California. The Association shall keep accurate books and records regarding such account. Funds deposited in such account may be used by the Association only for the purposes for which such funds have been collected.

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b) Reserve. Funds which the Association shall collect for reserves for capital expenditures relating to the repair and maintenance of the Lots and Common Area, and for such other contingencies as are required for good business practice shall, within 10 days after deposit in the General Account, be deposited into an interest bearing account with a bank or savings and loan association selected by the Association, or invested in Treasury Bills or Certificates of Deposit or otherwise prudently invested, which shall collectively be referred to as the "Reserve Account". Funds deposited into the Reserve Account shall be held in trust and may be used by the Association only for the purposes for which such amounts have been collected.

SECTION 11: INSPECTION OF BOOKS AND RECORDS

11.01. Inspection by Members.

a) Commencing not later than 90 days after the close of escrow of the first Lot in the Project, copies of the documents listed below, as soon as readily obtainable, shall be delivered by the Declarant to the Board of the Association at the office of the Association, or at such other place as the Board 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 (i) the conveyance of the last subdivision interest covered by a Final Public Report or (ii) three years after the expiration of the most recent Public Report for the Project:

- (1) A copy of the recorded subdivision Map or Maps for the Project.
- (2) The deeds and easements executed by the Declarant conveying the Common Area or other interest to the Association, to the extent applicable.
- (3) The recorded Declaration for the Project, 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 Project or use of the Common Area which have been promulgated by the Association.
- (7) The plans approved by the local agency or county where the Project is located 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 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 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 and of committees of the Board.

(14) Any other instrument which establishes or defines the common, mutual or reciprocal rights or responsibilities of Owners or Members of the Association.

b) If the Project is phased, commencing not later than 90 days after the annexation of additional phases to the Project, copies of those documents listed under subdivision a) which are applicable to that phase, shall as soon as they are readily obtainable, be delivered by Declarant to the Board at the office of the Association, or at such other place as the Board shall prescribe. The obligation to deliver the documents listed in Subsection a) shall apply to any documents obtained by the Declarant no matter when obtained, provided, however, such obligation shall terminate upon the earlier of (i) the conveyance of the last subdivision interest covered by a Final Public Report or (ii) three years after the expiration of the most recent Final Public Report for the Project.

c) The membership register, including mailing addresses and telephone numbers, books of account and minutes of meetings of the Members, the Board, and of committees of the Board shall be made available for inspection and copying by any Member of the Association or by his/her duly-appointed representative at any reasonable time and for a purpose reasonably related to his/her interest as a Member at the office of the Association or at such other place within the Project as the Board shall prescribe.

d) In the case of the minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes, of any meeting of the Board, other than an executive session, shall be available to Members within 30 days of the meeting and shall be distributed to Members only upon request and payment of the fee prescribed in Section 11.02(c) below. At the time the pro forma operating budget is distributed as required by Section 10 or at the time of any general mailing, Members of the Association shall be notified in writing of their right to have copies of the minutes of meetings of the Board and as to how and where those minutes may be obtained and the cost of obtaining such copies.

11.02. Rules for Inspection by Members. The Board shall establish reasonable rules with respect to:

- a) Notice to be given to the custodian of the records by the Member desiring to make the inspection;
- b) Hours and days of the week when such an inspection may be made; and,
- c) Payment of the costs of reproducing copies of documents requested by a Member.

11.03. Inspection by 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.

11.04. Review of Financial Records. The Board shall review on at least a quarterly basis a current reconciliation of the Association's operating and reserve accounts, the current year's actual reserve revenues and expenses compared to the current year's budget and an income and expense statement for the Association's operating and reserve accounts. In addition, the Board shall review the latest account

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statements prepared by the financial institution(s) where the Association has its operating and reserve accounts. For purposes herein, "reserve accounts" shall mean monies that the Association's Board 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.

11:05. Reserve Account Withdrawal Restrictions. The Board shall require that at least two signatures be needed for the withdrawal of monies from the Association's reserve account(s), which signatures shall be either those of Members of the Board or of one Member of the Board and of one officer who is not a Member of the Board.

SECTION 12: INSURANCE, DESTRUCTION AND/OR CONDEMNATION

12.01. Insurance. In addition to other insurance required to be maintained by the Project Documents, the Association, through its Board, shall obtain from generally accepted insurance carriers, and maintain in effect at all times, the following insurance at common expense:

a) Liability Insurance. The Association shall obtain and maintain comprehensive public liability insurance insuring the Association, its officers and directors, and each Owner against any liability incident to the ownership, use or maintenance of the Common Area, any Association maintenance responsibilities on the Lots, and other maintenance obligations of the Association, including, if obtainable, a cross-liability or severability of interest endorsement insuring each insured against liability to each other insured. The limits of such insurance shall not be less than \$2,000,000 covering all claims for death, personal injury and property damage arising out of a single occurrence. Such insurance may include protection against water damage liability, liability for nonowned and hired automobiles, liability for property of others, and such other risks as are customarily covered with respect to projects similar in construction, location and use. Such policy may provide for a reasonable deductible.

b) Fire, Casualty and Extended Coverage Insurance. The Association shall also obtain and maintain a policy of fire, casualty and extended coverage insurance for the full insurable replacement value (without deduction for depreciation) of all of the Common Area Improvements within the Project. Such policy may provide for a reasonable deductible. The form, content, term of policy, its endorsements and the issuing company shall meet the reasonable standards of all First Mortgagees and shall be consistent with good sound insurance coverage for properties similar in construction, location and use. The policy shall name as insured the Association for the benefit of the Owners and Declarant, as long as Declarant is the Owner of any Lot, and all Mortgagees as their respective interests shall appear, and may contain a loss payable endorsement in favor of any trustee described below.

c) Trustee. All fire, casualty and extended coverage insurance proceeds payable under Section 12.01 b) above for losses to real property and improvements may be paid to a trustee, to be held and expended for the benefit of the Owners, Mortgagees, and others, as their respective interests shall appear. Said trustee shall be a commercial bank, savings and loan or trust company in the county in which the Project is located that agrees in writing to accept such trust.

d) Other Insurance. The Board shall purchase and maintain Workers Compensation insurance, to the extent that it is required by law, for all employees or uninsured contractors of the Association. The Board also shall purchase and maintain fidelity bonds or insurance (which shall be in an amount not less than 150% of each year's estimated annual operating expenses and reserves and shall contain an endorsement of coverage of any person who may serve without compensation) sufficient to meet the reasonable requirements of any First Mortgagee. The Board shall also purchase and maintain insurance on personal property owned by the Association, and any other insurance that it deems necessary, that is reasonably required by any First Mortgagee or that is customarily obtained for projects similar in construction, location and use.

e) Adjustment of Losses. The Board is appointed attorney-in-fact by each Owner to negotiate and agree on the value and extent of any loss under any policy carried pursuant to Sections 12.01 a), b) and f). With respect to these sections, the Board is granted full right and authority to compromise and settle any claim or enforce any claim by legal action or otherwise and to execute releases in favor of any insurer.

f) Officer and Director Insurance. The Association may purchase and maintain insurance on behalf of any Director, Officer, or Member of a committee of the Association (collectively the "agents") against any liability asserted against or incurred by the agent in such capacity or arising out of the agent's status as such, whether or not the Association would have the power to indemnify the agent against such liability under applicable law.

g) General Provisions. To the extent possible, the Board shall make every reasonable effort to secure insurance policies providing for the following:

i) A waiver of subrogation by the insurer as to any claims against the Board, the manager, the Owners and their respective servants, agents and guests;

ii) That the policy will be primary, even if an Owner has other insurance which covers the same loss;

iii) That no policy may be cancelled or substantially modified without at least ten (10) days prior written notice to the Association and to each First Mortgagee listed as a scheduled holder;

iv) An agreed amount endorsement, if policy contains a coinsurance clause;

v) A guaranteed replacement cost or replacement cost endorsement; and

vi) An inflation guard endorsement.

h) Notice of Cancellation. All insurance carried by the Association shall require the insurer to notify any First Mortgagee and Declarant requesting such notice at least 15 days prior to the effective date of any reduction or cancellation of the policy.

i) Annual Review of Policies. All insurance policies shall be reviewed at least annually by the Board in order to ascertain whether the coverage contained in the policies is adequate. At least once every three years, the review shall include a replacement cost appraisal of all insurable Common Area Improvements without respect to depreciation. The Board shall adjust the policies to provide the amounts and types of coverage and protection that are customarily carried by prudent owners of similar property in the area in which the Project is situated.

j) Payment of Premiums. Premiums on insurance maintained by the Association shall be a common expense funded by Assessments levied by the Association.

k) Waiver of Subrogation. All insurance carried by the Association, or the Owners, shall contain provisions whereby the insurer waives rights of subrogation as to the Association, Directors, Officers, Declarant, Owners, occupants of Lots, their family, guests, agents and employees.

12.02. Individual Fire Insurance. Each Owner shall obtain and maintain, at his/her expense, fire and casualty coverage as may be required by the Owner's Individual Mortgagee, or if no Mortgagee encumbers a Lot, fire and casualty coverage as may be determined by the Board, with respect to damage or destruction to improvements on the Owner's Lot. All such individually carried insurance shall also contain a waiver of subrogation rights by the carrier as to other Owners, the Association, Declarant and First Mortgagee of such Lot.

12.03. Other Provisions and Limitations: All insurance policies shall be subject to and, where applicable, shall contain the following provisions and limitations:

(i) Underwriter: All policies (except earthquake insurance) shall be written with a company legally qualified to do business in the State of California and (i) holding a "B" or better general policyholder's rating and a "6" or better financial performance index rating as established by Best's Insurance Reports, (ii) reinsured by a company described in (i), above, or (iii) if such a company is not available, the best rating possible or its equivalent.

(ii) Named Insured: Unless otherwise provided in this Section, the named insured shall be the Association or its authorized representative, as a trustee for the Owners. However, all policies shall be for the benefit of Owners and their Mortgagees, as their interests may appear.

(iii) Fidelity Bond: A fidelity bond naming the Board, the Owners, the Association and such persons as the Board may designate as obligees, in an amount equal to at least one-fourth (1/4) of the total sum budgeted for the current operation account and reserve account for the current fiscal year. The fidelity bond shall contain a waiver of any defense based on the exclusion of persons serving without compensation.

(iv) Authority to Negotiate: Exclusive authority to adjust losses under policies obtained by the Association shall be vested in the Board; provided, however, that no Mortgagee having an interest in such losses may be prohibited from participating in any settlement negotiations related thereto.

(v) Contribution: In no event shall the insurance coverage obtained and maintained by the Association be brought into contribution with insurance purchased by Owners or their Mortgagees.

(vi) Term: The period of each policy shall not exceed three years. Any policy for a term greater than one (1) year must permit short rate cancellation by the insureds.

(vii) Deductible: The policy may contain a reasonable deductible and the amount of the deductible shall be added to the face amount of the policy in determining whether the insurance equals replacement cost.

12.04. Damage or Destruction - Association.

a) Minor Destruction Affecting Common Area. Notwithstanding Section 12.03(b), the Board shall have the duty to repair and reconstruct the Common Area without the consent of Members and irrespective of the amount of available insurance proceeds or other funds, in all instances of partial destruction where the estimated cost of repair and reconstruction does not exceed 5% of the budgeted gross expenses of the Association for that fiscal year. The Board may levy a Special Assessment for the cost of such repair and reconstruction to the extent insurance proceeds or other funds are unavailable.

b) Major Destruction Affecting Common Area.

i) Destruction: Proceeds Exceed 85% of Reconstruction Costs. If there is a total or partial destruction of the Common Area, and if the available proceeds of the insurance carried pursuant to Section 12.01 or other available funds are sufficient to cover not less than 85% of the costs of

repair and reconstruction, the Common Area shall be promptly rebuilt unless, within 90 days from the date of destruction, Members then holding at least 75% of the voting power of each class determine that repair and reconstruction shall not take place.

ii) Destruction; Proceeds Less than 85% of Reconstruction Costs. If the proceeds of insurance carried pursuant to Section 12.01 or other available funds are less than 85% of the costs of repair and reconstruction, repair and reconstruction shall not take place unless, within 90 days from the date of destruction, Members then holding at least a majority of the voting power of Members of each class determine that repair and reconstruction shall take place. If repair and reconstruction is to take place, the Board shall execute, acknowledge and record in the office of the County Recorder not later than 120 days from the date of destruction a certificate declaring the intention of the Members to rebuild.

iii) Special Assessment to Rebuild. If the determination is made to rebuild pursuant to the above Sections, the Association may levy a Special Assessment against all Lot Owners to cover the cost of rebuilding not covered by insurance proceeds or other funds.

iv) Rebuilding Contract. If the determination is made to rebuild, the Board shall obtain bids from at least three reputable contractors, and shall award the repair and reconstruction work to the least expensive bidder. The Board shall have the authority to enter into a written contract with the contractor for the repair and reconstruction, and the insurance proceeds shall be disbursed to said contractor according to the terms of the contract. It shall be the obligation of the Board to take all steps necessary to assure the commencement and completion of authorized repair and reconstruction at the earliest possible date.

12.05. Damage or Destruction – Owners. If all or any portion of a Lot or Residence is damaged by fire or other casualty and the loss is not covered by an insurance policy held by the Association, the Owner of the Improvement shall either (i) restore the damaged Improvements or (ii) remove all damaged Improvement, including foundations, and leave the Lot in a clean and safe condition. Any restoration under (i) preceding must be performed so that the Improvements are in substantially the same condition in which they existed prior to the damage. Unless extended by the Board, the Owner must commence such work within one hundred twenty days after the damage occurs and must complete the work within one year thereafter.

12.06. Condemnation.

a) Condemnation Affecting Common Area.

i) Sale in Lieu. If an action for condemnation of all or a portion of the Common Area is proposed or threatened by an entity having the right to eminent domain, then on the unanimous written consent of all of the Owners and subject to the rights of all Mortgagees, the Common Area, or a portion of it, may be sold by the Board. Subject to Corporations Code Section 8724, the proceeds of the sale shall be distributed in the following order or priority: (1) to the Association, to reimburse it for its condemnation expenses; (2) then to all Owners and their Mortgagees on the same basis as their Regular Assessment obligations and between the Lot Owners and their Mortgagees as their respective interests shall appear.

ii) Award. If the Common Area, or a portion of it, is not sold, but is instead taken, the judgment of condemnation shall by its terms apportion the award among the Owners and their

respective Mortgagees. If the judgment of condemnation does not apportion the award, then the award shall be distributed as provided above.

b) Condemnation Affecting Lots. If an action for condemnation of all or a portion of, or otherwise affecting a Lot is proposed or threatened, the Owner and the Mortgagees of the affected Lot, as their respective interests shall appear, shall be entitled to the proceeds of any sale or award relating to the affected Lot.

If any Lot is rendered irreparably uninhabitable as a result of such a taking, the Lot shall be deemed deleted from the Project and the Owners and Mortgagees of the affected Lot, upon receiving the award and any portion of the reserve funds of the Association reserved for the Lot, shall be released from the applicability of the Project Documents and deemed divested of any interest in the Common Area.

SECTION 13: MORTGAGEE PROTECTIONS

13.01. Mortgages Permitted. Any Owner may encumber his/her Lot with Mortgages.

13.02. Priority of Mortgage. Notwithstanding any other provision of this Declaration, it is hereby provided that a breach of any of the conditions contained in the Project Documents by any Owner or of any re-entry by reason of such breach, shall not defeat or render invalid the lien of any mortgage or deed of trust made in good faith and for value as to said Lot or any part thereof. Any lien which the Association may have on any Lot in the Project for the payment of common expense assessments attributable to such Lot will be subordinate to the lien or equivalent security interest of any first mortgage on the Lot recorded prior to the date of recordation of a notice of delinquent assessment.

13.03. Payment of Taxes or Premiums by Mortgagees. Mortgagees may, jointly or singly, pay taxes or other charges which are in default and which may or have become a charge against the Common Area, unless such taxes or charges are separately assessed against the Owners, in which case the rights of Mortgagees shall be governed by the provisions of their Mortgages. Mortgagees may, jointly or singly, also pay overdue premiums on hazard insurance policies, or secure new hazard insurance coverage on the lapse of a policy for the Common Area and Mortgagees making such payments shall be owed immediate reimbursement therefor from the Association. Entitlement to such reimbursement shall be reflected in an agreement in favor of any Mortgagee which requests the same to be executed by the Association.

13.04. Effect of Breach. No breach of any provision of this Declaration shall invalidate the lien of any Mortgage made in good faith and for value, but all of the covenants, conditions and restrictions shall be binding on any Owner whose title is derived through foreclosure sale, trustee's sale or otherwise.

13.05. Mortgagee's Rights. A First Mortgagee's rights shall include, but not be limited to, the following:

a) Attend Meetings. Any First Mortgagee, upon written request, shall receive written notice of all meetings of the Association and be permitted to designate a representative to attend all such meetings.

b) Furnish Information. Any Mortgagee may furnish information to the Board concerning the status of any Mortgage.

c) Inspect Books and Records. The Association shall make available to Owners, prospective purchasers and First Mortgagees current copies of the Project Documents and the books, records and financial statements of the Association. "Available" means available for inspection, upon request, during normal business hours.

In addition, if the project contains 50 or more Lots, the Association must provide an audited financial statement for the immediately preceding fiscal year if the First Mortgagee submits a written request for it. Said financial statement shall be furnished by the Association within a reasonable time following such request. If the Project contains fewer than 50 Lots and there is no audited financial statement available, any First Mortgagee should be allowed to have an audited financial statement prepared at its own expense.

13.06. No Restriction on Owner's Right to Ingress and Egress. Except as allowed in Section 16.09, there shall be no restriction upon any Owner's right to ingress to and egress from his/her Lot, which right shall be perpetual and appurtenant to his/her Lot ownership.

13.07. Notices to Mortgagees. Upon written request to the Association, any First Mortgagee shall be entitled to timely written notice of the following:

- a) Any proposed amendment to the Project Documents effecting a change in:
 - i) The boundaries of any Common Area Lot or the exclusive use rights appurtenant thereto, if any;
 - ii) The interests in the general or Exclusive Use Common Areas, if any, appurtenant to any Lot or the liability for Common Expenses appurtenant thereto;
 - iii) The number of votes in the Association appurtenant to any Lot; or,
 - iv) The purposes to which any Lot or the Common Area are restricted.
- b) Any proposed termination of the legal status of the Project as a planned development.
- c) Any condemnation or casualty loss which affects either a material portion of the Project or any Lot on which there is a First Mortgage held, insured or guaranteed by such requesting party.
- d) Any 60-day delinquency in the payment of Assessments or Individual Charges owed by an Owner subject to a First Mortgage held, insured or guaranteed by such requesting party.
- e) Any default in the performance by the affected Owner of any obligation under the Project Documents which is not cured within 60 days.
- f) Any lapse, cancellation or material modification of any insurance policy or fidelity bond maintained by the Association.
- g) Any proposed action which requires the consent of a specified percentage of First Mortgagees as specified in Section 13.08.

13.08. FNMA, FHLMC, FHA and VA Mortgages.

- a) Conditions When This Section Applicable. The provisions of this Section 13.08 shall apply if any of the following conditions exist pertaining to First Mortgages on any of the Lots:
- i) Any First Mortgage is sold or transferred to FNMA;
 - ii) Any First Mortgage is sold or transferred to FHLMC; or,
 - iii) Any First Mortgage is FHA insured or a Veterans Affairs ("VA") mortgage.

b) Approval of Material Amendments. The approval of 67% of the total voting power of the Association and 51% or more of the Eligible First Mortgagees (based upon one vote for each first mortgage owned) must be obtained for amendments of a material nature to the Project Documents. A change to any of the following would be considered as material:

- i) Voting rights;
- ii) Assessments, assessment liens or subordination of assessment liens;
- iii) Reserves for maintenance, repair and replacement of Common Areas or any other portions of the Project which the Association has a duty to maintain, repair and replace;
- iv) Responsibility for maintenance and repairs;
- v) Reallocation of interests in the general or Exclusive Use Common Areas, if any, or rights to their use;
- vi) Boundaries of any Common Area Lot;
- vii) Convertibility of Lots into Common Areas or vice-versa;
- viii) Expansion or contraction of the Project or the addition, annexation or withdrawal of property to or from the Project;
- ix) Insurance or fidelity bonds;
- x) Leasing of Lots;
- xi) Imposition of any right of first refusal or similar restriction on a Lot Owner's right to sell, transfer or convey his/her Lot;
- xii) A decision by the Owner's Association to establish self management when professional management has been required previously by a First Mortgagee;
- xiii) Restoration or repair of the Project (after a hazard damage or partial condemnation) in a manner other than that specified in the Project Documents;
- xiv) Any action to terminate the legal status of the Project after substantial destruction or condemnation occurs; or,
- xv) Any provisions that expressly benefit First Mortgagees, insurers or guarantors.

An addition or amendment to the Project Documents shall not be considered material if it is for the purpose of correcting technical errors, or for clarification only.

If an addition or amendment is not considered as a material change, approval will be implied when a First Mortgagee fails to submit a response to any written proposal for an amendment within 30 days after the proposal is submitted.

c) Termination of Legal Status. Except as provided above, any election to terminate the legal status of the Project as a planned development must be approved by at least 67% of the voting power of the Association and 67% of the Eligible First Mortgagees based upon one vote for each First Mortgage owned.

d) Reallocation of Interests in the Common Area. No reallocation of interests in the Common Area resulting from a partial condemnation or partial destruction of the Project shall be effected without the approval of 51% of the Eligible First Mortgagees based upon one vote for each First Mortgage owned.

e) Restriction on Certain Changes. Unless at least 66-2/3% of the First Mortgagees (based on one vote for each First Mortgage owned) and 66-2/3% of the Owners other than Declarant have given their prior written approval, the Association shall not:

i) By act or omission seek to abandon, partition, subdivide, encumber, sell or transfer the Common Area (the granting of easements for public utilities or for other public purposes consistent with the intended use of such Common Area by the Association shall not be deemed a transfer within the meaning of this clause); or,

ii) Change the method of determining the Assessments, or other charges which may be levied against a Lot Owner; or,

iii) By act or omission change, waive or abandon any scheme of regulations, or enforcement thereof, pertaining to the architectural design or the exterior appearance of Lots, the exterior maintenance of Lots, the maintenance of any Common Area party walls or common fences and driveways, or the upkeep of lawns and plantings in the Project; or,

iv) Fail to maintain fire and extended coverage on insurable Common Area and other portions of the Project which the Association has a duty to insure on a current replacement cost basis in an amount not less than 100% of the insurable value (based on current replacement cost); or,

v) Use hazard insurance proceeds for losses to any Common Area or other Project improvements for other than the repair, replacement or reconstruction of such Common Area or improvements.

f) No Right of First Refusal. The right of an Owner to sell, transfer or otherwise convey his/her Lot shall not be subject to any "right of first refusal" or similar restriction.

g) Foreclosure Eliminates Unpaid Assessments. Each holder of a first mortgage lien on a Lot who comes into possession of the Lot by virtue of foreclosure of the mortgage or any purchaser at a foreclosure sale, will take the Lot free of any claims for unpaid Assessments and charges against the Lot which accrue prior to the time such holder comes into possession of the Lot, except for claims for a pro rata share of such Assessments or charges resulting from a pro rata reallocation of such Assessments or charges of all Project Lots, including the mortgaged Lot.

h) Mortgage Priority in Case of Distribution. No provision in any Project Document will entitle a Lot Owner or other party to priority over any rights of the First Mortgagee on the Lot pursuant to its Mortgage in the case of a distribution to such Lot Owner of insurance proceeds or condemnation awards for losses to or a taking of the Lot and/or Common Area.

i) Taxes Relate Only to Individual Lots. All taxes, assessments and charges which may become liens prior to the first mortgage under local law shall relate only to the individual Lots and not to the Project as a whole.

13.09. FHA/VA Approval. During any period of time that a mortgage on any portion of the Project is held, insured or guaranteed by FHA or VA, and as long as there is a Class B Membership, the following actions shall require the prior approval of FHA or VA: amendment of the Project Documents; annexation of additional property; dedication or mortgaging of the Common Area; or, merger or consolidation of the Association with another corporation.

13.10. Additional FHA Provisions. If loans secured by mortgages encumbering Lots within the development qualify for mortgage insurance by FHA, the following shall apply:

All Owners, tenants and occupants of Lots in the development covenant and agree that the administration of the development shall be in accordance with the terms and provisions of the Regulatory Agreement (FHA Form No. 3278) executed by FHA and the Association and that such terms and provisions of said Regulatory Agreement shall be fully complied with.

To the extent any matters in this Declaration or in the Articles or the Bylaws are in any way inconsistent with any matters in said Regulatory Agreement if in effect, then said Regulatory Agreement shall prevail. The right to lease Lots in the development shall be subject to all terms and provisions of said Regulatory Agreement.

In the event of any conflict between any of the provisions of this Section and any other provisions of this Declaration, the provisions of this Section shall control.

Any provision of this Declaration which confers a power or right upon the FHA or the Federal Housing Commissioner and all of the provisions of the Regulatory Agreement shall be inapplicable whenever there are no Lots where FHA insures the mortgage held by any First Mortgagee.

Whenever a notice is required to be sent to a Mortgagee holding an FHA insured mortgage or the approval of the FHA is required, the notice or the request for approval shall be sent to the supervisor of the FHA office that has jurisdiction in which the Project is located. If the FHA does not respond within 20 days after the notice is mailed or delivered, then FHA shall be deemed to have approved the request.

13.11. Compliance with FHA/VA, FHLMC or FNMA Requirements. Declarant intends that the Project shall comply with all of the requirements of the Federal Housing Administration ("FHA"), the Department of Veterans Affairs ("VA"), the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal National Mortgage Association ("FNMA"). All casualty and liability insurance covering any portion of the Project encumbered by a Mortgage insured by FHA, guaranteed by VA, or held by FHLMC or FNMA, shall therefore conform to the applicable FHA/VA, FHLMC or FNMA requirements. Declarant and all Lot Owners also agree that in the event the Project or the Project Documents do not comply with the applicable FHA/VA, FHLMC or FNMA requirements, the Board and each Owner shall take any action or adopt any resolutions required to conform such Project Documents, or the Project, to the FHA/VA, FHLMC or FNMA requirements, subject to the review and approval of the California Department of Real Estate, in accordance with applicable law, so long as the Department of Real Estate retains jurisdiction.

13.12. Waivers. A Mortgagee may waive any requirement contained in this Declaration as it pertains to such Mortgagee, provided such waiver shall be in writing.

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13.13. **Conflicts.** In the event of a conflict between any of the provisions of this Section 13 and any other provisions of this Declaration, the provisions of this Section 13 shall control.

13.6

SECTION 14: ENFORCEMENT OF BONDED OBLIGATIONS

If any Common Area improvements in the Project have not been completed prior to the issuance of the Final Public Report and the Association is obligee under a bond or other arrangement ("Bond") to secure performance of the commitment of Declarant to complete such improvements, the Board shall consider and vote on the question of action by the Association to enforce the obligations under the Bond with respect to any improvement for which a Notice of Completion has not been filed within 60 days after the completion date specified for that improvement in the Planned Construction Statement appended to the Bond. If the Association has given an extension in writing for the completion of any Common Area improvement, the Board shall consider and vote on the aforesaid question if a Notice of Completion has not been filed within 30 days after the expiration of the extension.

A special meeting of Members for the purpose of voting to override a decision by the Board not to initiate action to enforce the obligations under the Bond or on the failure of the Board to consider and vote on the question, shall be held not less than 35 days nor more than 45 days after receipt by the Board of a petition for such meeting signed by Members representing 5% or more of the total voting power of the Association. At such special meeting, a vote of a majority of the voting power of the Association residing in Members other than Declarant to take action to enforce the obligations under the Bond shall be deemed to be the decision of the Association and the Board shall thereafter implement this decision by initiating and pursuing appropriate action in the name of the Association.

SECTION 15: AMENDMENTS

15.01. Prior to First Conveyance. Prior to close of escrow on the conveyance of the first Lot, Declarant may amend or revoke this Declaration subject to the requirements of Business and Professions Code Sections 11012 and 11018.7:

15.02. After First Conveyance. After conveyance of the first Lot, this Declaration may be amended or revoked only by the affirmative vote (in person or by proxy) or written consent of Members representing a majority of the voting power of each class of Members of the Association. If only one class of membership exists at the time an amendment is proposed, then it must be approved by at least a bare majority of the total voting power of the Association, which shall include at least a bare majority of the votes of Members other than Declarant. The percentage of the voting power necessary to amend a specific clause or provision of this Declaration shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause or provision.

15.03. Recordation. Any amendment must be recorded and shall become effective only upon being recorded in the County Recorder's Office.

15.04. Unanimous Consent for Specific Amendments. The consent of all Owners shall be required for any amendment of Project Documents effecting a change in:

- a) the boundaries of any Common Area Lot;
- b) the interest in the common elements pertaining to the Lot or the liability for Common Expenses appertaining thereto;
- c) the number of votes in the Owners Association appertaining to the Lot; or,
- d) the fundamental purposes to which any Lot or the common elements are restricted.

15.05. FHA Requirements. Notwithstanding any provision of this Section to the contrary, all requirements of Section 13 must be met in order to effectuate any amendment or revocation pursuant to this Section.

SECTION 16: GENERAL PROVISIONS

16.01. Term. The covenants and restrictions of this Declaration shall run with and bind the Property, and shall inure to the benefit of and be binding on the Association and the Owners of any Lots, their legal representatives, heirs, grantees, tenants, successors and assigns, subject to this Declaration, for a term of 30 years from the date this Declaration is recorded. Thereafter, subject to the Section entitled "Amendments", they shall be automatically extended for successive periods of 10 years.

16.02. Owner's Compliance. Each Owner, tenant or occupant of a Lot shall comply with the provisions of this Declaration, and (to the extent they are not in conflict with the Declaration), the Project Documents and the decisions and resolutions of the Association or the Board, as lawfully amended from time to time. Failure to comply with any such provisions, decisions, or resolutions, shall be grounds for an action to recover sums due, for damages, for injunctive relief, or to enforce such provisions, decisions or resolutions.

All agreements and determinations lawfully made by the Association in accordance with the voting percentages established in the Project Documents shall be deemed to be binding on all Owners of Lots, their successors and assigns.

16.03. Notices. Any notice permitted or required by the Project Documents may be delivered either personally or by mail. If delivery is by mail, it shall be deemed to have been delivered 72 hours after a copy of the same has been deposited in the United States mail, first class or registered, postage prepaid, addressed to the person to be notified at the current address given by such person to the Secretary of the Board or addressed to the Lot of such person if no address has been given to the Secretary.

16.04. Notice of Transfer. No later than 15 days after the sale or transfer of any Lot under circumstances whereby the transferee becomes the Owner thereof, the transferee shall notify the Association in writing of such sale or transfer. Such notice shall set forth:

- a) the Lot involved;
- b) the name and address of the transferee and transferor; and,
- c) the date of close of escrow.

Unless and until such notice is given, the Association shall not be required to recognize the transferee for any purpose, and any action taken by the transferor as an Owner may be recognized by the Association. Prior to receipt of any such notification by the Association, any and all communications required or permitted to be given by the Association shall be deemed duly given and made to the transferee if duly and timely made and given to said transferor.

16.05. Delivery of Project Documents to Transferee. Prior to the transfer of title to a Lot, the transferor shall provide to the prospective transferee a copy of the Project Documents and such other documents and information as are required by California Civil Code Section 1368.

16.06. Easements Reserved and Granted. Any easements appurtenant to a Lot referred to in this Declaration shall be deemed reserved and/or granted by reference to this Declaration in a deed to said Lot.

16.07. Termination of any Responsibilities of Declarant. If Declarant shall convey all of its right,

title and interest in and to the Project to any partnership, individual or corporation, then and in such event, Declarant shall be relieved of the performance of any further duty or obligation hereunder, and such partnership, individual or corporation shall be obligated to perform all such duties and obligations of the Declarant.

16.08. Mergers and Consolidations. To the extent permitted by law, the Association may participate in mergers and consolidations with other non-profit organizations organized for the same purposes as this Association, provided that any such merger or consolidation shall have the written consent of all of the Members or the assent by vote of two-thirds of the Members voting in person or by proxy at a meeting duly called for this purpose, written notice of which shall be given to all Members at least thirty days in advance, and must comply with the annexation provisions contained in Section 3, incorporated herein by reference.

16.09. Limitation of Restriction on Declarant. Nothing in this Declaration shall be understood or construed to:

- a) Prevent Declarant, its contractors, or subcontractors from doing on the Project or any Lot, whatever is reasonably necessary or advisable in connection with the completion of said work; or,
- b) Prevent Declarant or its representatives from erecting, constructing and maintaining on any part or parts of the Project, such structures as may be reasonable and necessary for the conduct of its business of completing said work and establishing said Project as a residential community and disposing of the same in parcels by sale, lease, or otherwise; or,
- c) Prevent Declarant from conducting on any part of the Project its business of completing said work and of establishing a plan of ownership and of disposing of said Project in Lots by sale, lease or otherwise; or,
- d) Prevent Declarant from maintaining such sign or signs on any of the Project as may be necessary for the sale, lease or disposition thereof, provided, however, that the maintenance of any such sign shall not unreasonably interfere with the use by any Owner of his/her Lot or the Common Area.

The foregoing limitations of the application of the restrictions to Declarant shall terminate upon the sale of Declarant's entire interest in the Project, or three years after the close of the first escrow, whichever occurs earlier.

Any action taken by Declarant pursuant to any provision of this Section will not unreasonably interfere with the Owners' rights and use of the Project.

16.10. Successor. The rights of Declarant in this Declaration may be assigned by Declarant to any successor to all or any part of Declarant's interest in the Project, as developer, by an express assignment incorporated in a recorded deed that transfers any such interest to a successor or to a Mortgagee acquiring Declarant's interest in the Project by foreclosure or by deed in lieu of foreclosure.

16.11. Severability. Should any provision or portion hereof be declared invalid or in conflict with any law within the jurisdiction where this Project is located, the validity of all other provisions and portions hereof shall remain unaffected and in full force and effect.

16.12. Estoppel Certificate. Within ten days of the mailing or delivery of a written request by any

Owner, the Board shall provide the Owner with a written statement containing the following information:

a) whether, to the knowledge of the Association, the Owner or the Owner's Lot is in violation of any of the provisions of this Declaration, the Articles, Bylaws or Association Rules;

b) the amount of regular and special assessments, including installment payments, paid by the Owner during the fiscal year the request is received; and,

c) the amount of any assessments levied against the Owner's Lot that are unpaid as of the date of the statement, including any late charges, interest or cost of collection that as of the date of the statement are or may be made a lien against the Owner's Lot as provided by this Declaration, the Articles, Bylaws or Association Rules.

16.13. Conflict with Project Documents. If there is a conflict among or between the Project Documents, the provisions of this Declaration shall prevail; thereafter, priority shall be given to Project Documents in the following order: Articles, Bylaws and Association Rules.

16.14. Headings. The headings used in this Declaration are for convenience only and are not to be used to interpret the meaning of any of the provisions of this Declaration.

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SECTION 17: DISCLOSURES

Because of the information included in this Section has been obtained from other sources (e.g. governmental and other public agencies and public records) and is subject to change for reasons beyond the control of Declarant and the Association, the Declarant and the Association undertakes to advise Owners of any changes affecting the disclosures in this Section. Owners should make their own investigations to determine the current status of the matters addressed in this Section.

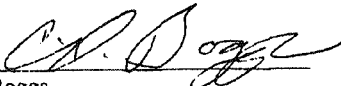
17.01 **No Representation or Warranties.** No representation or warranties, express or implied, have been given or made by Declarant, the Association or their agents in connection with the Properties, its physical condition, zoning, compliance with laws, fitness for intended use, or in connection with the subdivision, sale, operation, maintenance, cost of maintenance, taxes or regulation thereof as a planned residential development, except as expressly provided in this Declaration, as submitted by Declarant to the California Department of Real Estate, or as provided by Declarant to the first Owner of each Lot.

016084

IN WITNESS WHEREOF, Declarant has executed this Declaration.

DATED: 3/8, 200⁴.

MARTIS VALLEY INVESTMENTS,
a California Corporation

By: 
C.R. Boggs

Title: General Partner

016084

STATE OF CALIFORNIA

Title or type of Document _____
Number of Pages _____ Date of Document _____
Signer(s) Other than named below _____

County of Nevada

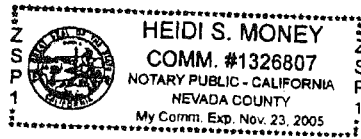
On March 12, 2004 before me HEIDI S. MONEY personally appeared
CR 30990

personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Heidi S. Money
Notary Public in and for said County and State

(Seal)



016084

EXHIBIT "A"

DESCRIPTION OF PROPERTY SUBJECT TO DECLARATION

All that certain real Property situated in the Town of Truckee, County of Nevada, State of California, described as follows:

Lots 1 through 66, inclusive, and Parcel "A", as shown on the Map entitled "Cambridge Estates Phase V - Final Map No. 90-07", filed for record APRIL 27, 2004, in Book 5 of Maps, Page 114, Nevada County Records.

EXHIBIT "A"

016084

CONSENT OF LIENHOLDER AND SUBORDINATION OF LIEN

The undersigned beneficiary under that certain Deed of Trust recorded August 13, 2003 as Instrument/Document No. 2003-42794, of the Official Records of Nevada County, California, consents to all of the provisions contained in the attached Declaration and agrees that the lien of the deed of trust shall be junior and subordinate and subject to said Declaration.

Dated Sept. 17, 2003

LIENHOLDER

Citizens Bank of Nevada County

By: Famela M. Bair

Title: VP / Credit Manager

FAMELA M. BAIR

ALL-PURPOSE ACKNOWLEDGMENT

State of California }
 County of NEVADA } ss.
 On 4-15-04 before me, LINDA MAY HAWKINS,
(DATE) (NOTARY)
 personally appeared PAMELA M. BARR
SIGNER(S)

personally known to me - OR - proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signatures(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



WITNESS my hand and official seal.

Linda May Hawkins
NOTARY'S SIGNATURE

OPTIONAL INFORMATION

The information below is not required by law. However, it could prevent fraudulent attachment of this acknowledgment to an unauthorized document.

CAPACITY CLAIMED BY SIGNER (PRINCIPAL)

- INDIVIDUAL
- CORPORATE OFFICER

TITLE(S)

- PARTNER(S)
- ATTORNEY-IN-FACT
- TRUSTEE(S)
- GUARDIAN/CONSERVATOR
- OTHER: _____

DESCRIPTION OF ATTACHED DOCUMENT

TITLE OR TYPE OF DOCUMENT

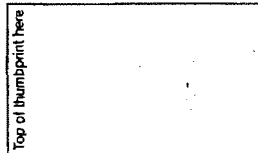
NUMBER OF PAGES

DATE OF DOCUMENT

OTHER

SIGNER IS REPRESENTING:
NAME OF PERSON(S) OR ENTITY(IES)

RIGHT THUMBPRINT
OF
SIGNER



RECORDING REQUESTED BY
FIDELITY NATIONAL TITLE

RECORDING REQUESTED BY, AND
WHEN RECORDED, MAIL TO:

Martis Valley Investments
4401 Hazel Avenue #275
Fair Oaks, CA 95028



Nevada, County Recorder
Kathleen Smith
DOC- 2005-0025743-00

Acct 6-Fidelity National Title Co
Thursday, JUL 07, 2005 08:00:00
REC \$7.00:CCF \$1.00:SBS \$2.00
MIC \$1.00:AUT \$3.00:
Ttl Pd \$14.00 Nbr-0000384945
KAN/KN/1-3

3

**FIRST AMENDMENT TO DECLARATION OF COVENANTS, CONDITIONS AND
RESTRICTIONS OF CAMBRIDGE ESTATES PHASE V (FINAL MAP NO. 90-07)**

THIS FIRST AMENDMENT TO DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS OF CAMBRIDGE ESTATES PHASE V (FINAL MAP NO. 90-07) (hereinafter referred to as "First Amendment") is made on the date hereinafter set forth by Martis Valley Investments, a California Limited Partnership, (referred to in this First Amendment as "Declarant"), and is made with reference to the following facts:

RECITALS

A. On April 27, 2004 Declarant recorded that certain document entitled "DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS OF CAMBRIDGE ESTATES PHASE V (FINAL MAP NO. 90-07) (referred to herein as "Declaration") as Instrument No. 2004-0016084-00 of the Official Records of Nevada County. Unless otherwise specified herein, all terms used in this First Amendment shall mean as defined in said Declaration.

B. Said Declaration directly affects all that real property located in the Town of Truckee, County of Nevada, California, more particularly described as follows:

Lots 1 through 66, inclusive, and Parcel A, as shown on the Map entitled "Cambridge Estates Phase V - Final Map No. 90-07", filed for record April 27, 2004, in Book 8 of Maps, Page 118, Nevada County Records.

C. Section 15, Subsection 15.01 of said Declaration provides that said Declaration may be amended by Declarant prior to close of escrow on the sale of the first Lot.

D. At this time, title to all Lots in the Project is still held by Declarant, and Declarant desires to amend said Declaration as set forth herein.

NOW THEREFORE, Declarant hereby declares that said Declaration is amended as follows, and except as amended herein, said Declaration shall remain unchanged and in full force and effect. If there is any conflict between the Declaration and this First Amendment, the terms of this First Amendment shall prevail.

1. SECTION 4, Subsection 4.16, is hereby deleted in its entirety.

025743

The undersigned, being the Declarant herein, has executed this First Amendment on June 30, 2005

MARTIS VALLEY INVESTMENTS,
a California Corporation

By: 
C.R. BOGGS

Title: General Partner

State of California)

County of Sacramento)

On June 30, 2005 before me,

Pamela J. Thrall

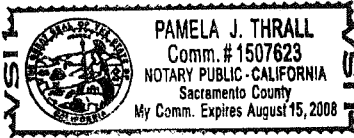
personally

appeared

C. R. Boggs
NAME(S) OF SIGNER(S)

NAME(S) OF SIGNER(S)

personally known to me - OR - proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/~~are~~ subscribed to the within instrument and acknowledged to me that he/~~she/they~~ executed the same in his/~~her/their~~ authorized capacity(ies), and that by his/~~her/their~~ signatures(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



WITNESS my hand and official seal.

Pamela J. Thrall
SIGNATURE OF NOTARY

CAPACITY CLAIMED BY SIGNER

- INDIVIDUAL(S)
- CORPORATE _____
OFFICER(S) _____
(Titles)
- PARTNERS(S)

- ATTORNEY-IN-FACT

- TRUSTEE(S)
- SUBSCRIBING WITNESS
- GUARDIAN/CONSERVATOR
- OTHER:

**SIGNER IS REPRESENTING:
NAME OF PERSON(S) OR ENTITY(IES)**

