

or other persons seeking to be indemnified shall not be entitled to vote on any matters with respect to the authorization.

9.3 Advancing Expenses. Except as otherwise determined by the Community Board in a specific instance, "expenses" incurred by a Community Director, officer, committee member, employee or "agent" seeking indemnification under Section 9.1 shall be advanced by the Community Association prior to the final disposition of the proceeding upon receipt of a written undertaking by or on behalf of the Community Director, officer, committee member, employee or "agent" to repay the amount unless it is ultimately determined that the person is entitled to be indemnified by the Community Association.

ARTICLE 10

ASSESSMENTS

10.1 Liability for Assessments; Collection. As more fully provided in Article 6 of the Declaration, each Member is obliged to pay to the Community Association Regular Special Assessments, Capital Improvement Assessments, Enforcement Assessments and Reconstruction Assessments to be collected as therein set forth.

ARTICLE 11

COMMUNITY ASSOCIATION'S ACCOUNTS

11.1 Books and Records.

11.1.1 Records Available. Any membership register books of account and minutes of meetings of the Members, the Community Board and committees of the Community Board of the Community Association (excluding any minutes of meetings while the Community Board is in executive session), shall be made available for inspection and copying by any Member of the Community Association, or such Member's duly-appointed representative, or any Mortgagee, at any reasonable time and for a purpose reasonably related to his or her interest as a Member, at the office of the Community Association or at such other place within the Covered Property as the Community Board prescribes. Upon request and payment of the fees prescribed under Section 11.1.2(c), regular minutes proposed for adoption that are marked to indicate draft status, or a summary of any minutes, other than minutes of executive session meetings, shall be made available to Members within thirty (30) days of any such meeting. Members shall have such additional access and inspection rights with respect to records of the Community Association as is provided in Article 12 (commencing with Section 8330) of Chapter XIII of Part III of Division II of Title I of the California Corporations Code, or any successor statute or law. At the time the pro forma operating statement is delivered under Section 11.2.1 of these Bylaws or at the time of any mailing, Members shall be notified in writing of their right (a) to have

copies of Minutes, (b) how and where to obtain such copies, and (c) the cost of obtaining such copies.

11.1.2 Rules Regarding Inspection. The Community Board shall establish by resolution reasonable rules with respect to:

a. Notice to be given to the custodian of the records of the Community Association by the Member, representative or Mortgagee desiring to make an inspection;

b. Hours and days of the week when an inspection may be made; and

c. Payment of the cost of reproducing copies of documents requested by a Member or by a representative or Mortgagee.

11.1.3 Rights of Directors. Except as otherwise provided by California law, every Community Director shall have the absolute right at any reasonable time to inspect all books, records and documents of the Community Association and the physical properties owned or controlled by the Community Association. The right of inspection by a Community Director includes the right to make extracts and copies of documents.

11.2 Budget, Financial and Insurance Statements. The following financial information shall be regularly prepared by the Community Board of the Community Association:

11.2.1 Budgets. A pro-forma operating statement/budget (including any applicable Base Budget and Special Services Area Budget) for each fiscal year consisting of at least the following information shall be distributed to all Members of the Community Association (or all Members within any Special Services Areas in the case of a Special Services Area Budget) not less than forty-five (45) days and not more than sixty (60) days prior to the beginning of the fiscal year, together with a copy of Section 1354 of the California Civil Code relating to dispute resolution procedures:

a. Estimated revenue and expenses on an accrual basis;

b. A summary of the Community Association's reserves based upon the most recent review or study conducted pursuant to Section 11.3 of these Bylaws, which shall be printed in bold type and include the following:

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

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

(a) The current estimate of the amount 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;

(iii) The percentage that the current amount of accumulated cash reserves determined for purposes of Section 11.2.1(b)(ii)(b) is of the current estimate of the amount of accumulated cash reserves determined for purposes of Section 11.2.1(b)(ii)(a);

c. A statement as to whether the Community 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

d. A general statement setting forth the procedures used by the Community Board in the calculation and establishment of reserves to defray the costs of repair, replacement or additions to major components of the Community Common Area and any other areas or Improvements within the Covered Property for which the Community Association is responsible.

In lieu of the distribution of the pro-forma operating statement described above to all Members, the Community Board may elect to distribute a summary of such statement to the Members with a notice that the actual statement is available at the business office of the Community Association or another suitable location within the Covered Property and that copies will be provided upon request of the Community Board, at the Community Association's expense. If any Member requests a copy of the pro-forma operating statement required to be distributed as provided above, the Community Association shall provide it to the Member by first-class United States mail at the Community Association's expense within five (5) days following a request therefor by the Member. The written notice that is distributed to each Member shall be in at least 10-point bold type on the front page of the summary of the pro-forma operating statement.

11.2.2 Balance Sheets. A balance sheet as of an accounting date which is the last day of the month closest in time to six (6) months from the date of closing of the first Residential Lot in the Covered Property to a Class A Member and an operating statement for the period from the date of the first closing to the said accounting date, shall be distributed to the Members of the Community Association within sixty (60) days after the accounting date. This operating statement shall include a schedule of assessments received and receivable identified by number of the subdivision interest and the name of the entity assessed.

11.2.3 Review of Accounts. The Community Board shall do the following not less frequently than quarterly:

a. Cause a current reconciliation of the Community Association's Maintenance and Operation Account to be made and review the same;

b. Cause a current reconciliation of the Community Association's Reserve Account to be made and review the same;

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

d. Review the most current account statements prepared by the financial institution where the Community Association has its Maintenance and Operation Account and Reserve Account; and

e. Review an income and expense statement for the Community Association's Maintenance and Operation Account and Reserve Account.

11.2.4 Annual Report. An annual report shall be distributed to the Members of the Community Association within one hundred and twenty (120) days after the close of the fiscal year consisting of the following: (a) a balance sheet as of the end of the fiscal year; (b) an operating (income) statement for the fiscal year; (c) a statement of changes in financial position for the fiscal year; and (d) any information required to be reported under Section 8322 of the Corporations Code. For any fiscal year in which the gross income to the Community Association exceeds Seventy-Five Thousand Dollars (\$75,000.00), a copy of the review of the annual report shall be prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy. If the report is not prepared by an independent accountant, it shall be accompanied by the certificate of an authorized officer of the Community Association that the statement was prepared from the books and records of the Community Association without independent audit or review.

11.2.5 Community Association Policies. A statement setting forth the Community Association's policies and practices in enforcing the lien rights and other legal remedies for the default in the payment of Assessments against Members shall be distributed to the Members of the Community Association within sixty (60) days prior to the beginning of each fiscal year. In addition, a written notice regarding assessments and foreclosures as set forth in California Civil Code Section 1365.1 shall be distributed to the Members of the Community Association within sixty (60) days prior to the beginning of each fiscal year.

11.2.6 Schedule of Monetary Penalties. If the Community Association adopts or has adopted a policy imposing any monetary penalty, including any fee, on any Member for a violation of the governing documents or rules of the Community Association, including any monetary penalty relating to the activities of a guest or invitee of a Member, the Community 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 for those violations, which shall be in accordance with authorization for the discipline of Members contained in Community Governing Documents. The Community Board shall not be required to distribute any additional schedules of monetary penalties unless there are changes from the schedule that was adopted and distributed to the Members as provided herein.

11.2.7 Copies to Mortgagees. Copies of each such balance sheet, operating statement and pro forma operating statement for the Community Association shall be mailed to any Mortgagee who has requested in writing that such copies be sent to it at such Mortgagee's expense.

11.2.8 Insurance Summary. Within sixty (60) days prior to the beginning of the Community Association's fiscal year, the Community Board shall provide a statement setting forth the information regarding the Community Association's insurance policies as required by California Civil Code Section 1365, or any successor statute or law, including the following:

a. A summary of the property, general liability, fidelity and earthquake and flood insurance policies, if any, to be carried by the Community Association pursuant to the Declaration that states all of the following:

- (i) The name of the insurer;
- (ii) The type of insurance;
- (iii) The policy limits of the insurance; and
- (iv) The insurance deductibles.

b. The Community Board shall, as soon as reasonably practical, notify its Members by first-class mail if any of the policies have lapsed, been canceled and are not immediately renewed, restored or replaced, or if there is a significant change, such as a reduction in coverage in limits or an increase in the deductible, for any of the Community Associations' insurance policies. If the Community Association receives any notice of nonrenewal of a policy described above, and there will be lapse in coverage, the Community Association shall immediately notify its Members if replacement coverage will not be in effect by the date the existing coverage will lapse.

c. To the extent that the information to be disclosed pursuant to Section 11.2.8(a) is specified in the declaration page of the applicable insurance policy, the Community Board may meet the requirements of those provisions by making copies of that page and distributing it to the Members.

d. The summary of the Community Association's insurance policies distributed pursuant to Section 11.2.8(a) shall contain the statement required under California Civil Code Section 1365(e)(4).

11.3 Reserves.

11.3.1 Transfer of Reserve Funds. As provided in Section 1365.5 of the Civil Code, the Community Board shall not expend funds designated as reserve funds for any purpose other than the repair, restoration, replacement, or maintenance of, or litigation involving the

repair, restoration, replacement, or maintenance of, major components for which the Community Association is obligated to repair, restore, replace, or maintain and for which the reserve fund was established (including any separate reserves maintained for Special Benefit Areas). However, the Community Board may authorize a temporary transfer of money from a reserve fund to the Community Association's general operating fund to meet short-term cash-flow requirements or other expenses, provided that the Community Board has made a written finding describing the reasons why a transfer from reserves to operating funds is necessary and how and when the money will be repaid to the reserve fund. The Community Association must notify all members of the decision in the next mailing to all Members and of the availability of an accounting of these expenses. The transferred funds shall be restored to the reserve fund within one (1) year of the date of the initial transfer, except that the Community Board may, upon making a finding supported by documentation that a temporary delay would be in the best interest of the Covered Property, temporarily delay the restoration of these funds until the time the Community Board reasonably determines to be necessary. The Community Board shall exercise prudent fiscal management in restoring the expended funds to the reserve account, and shall, if necessary, levy a Special Assessment to recover the full amount of the expended funds within the time limits required by this Section. Such Special Assessment is subject to the limitation imposed by California Civil Code Section 1366 or any successor statute or law or as provided in the Declaration. The Community Board may, at its discretion, extend the date the payment of the Special Assessment is due; provided that any such extension shall not prevent the Community Board from pursuing any legal remedy to enforce the collection of any unpaid Special Assessment. In addition to the foregoing, when a decision is made to use reserve funds or to temporarily transfer money from the reserve fund to pay for litigation involving the repair, restoration, replacement or maintenance of major components for which the Community Association has the obligation to repair, restore, replace or maintain and for which the reserve fund was established, the Community Association shall notify the Members of that decision and the next available mailing to all Members pursuant to California Corporations Code Section 5016, and of the availability of an accounting of those expenses. The Community Association shall make an accounting of expenses related to such litigation on at least a quarterly basis, which shall be made available for inspection by Members at the Community Association's office.

11.3.2 Reserve Study. At least once every three (3) years, the Community Board shall cause a study of the reserve account requirements for the Covered Property to be conducted if the current replacement value of the major components which the Community Association is obligated to repair, replace, restore, or maintain under the Declaration is equal to or greater than one-half (1/2) of the gross budget of the Community Association for any fiscal year. The Community Board shall review this study annually and shall consider and implement necessary adjustments to the Community Board's analysis of the reserve account requirements as a result of that review. Separate reserve studies shall be completed for any Special Benefit Areas. At a minimum, the study required by this Section shall include:

a. The identification of the major components which the Community 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 thirty (30) years;

b. Identification of the probable remaining useful life of the components identified in Section 11.3.2(a) of these Bylaws as of the date of the study;

c. An estimate of the cost of repair, replacement, restoration, or maintenance of each major component identified in Section 11.3.2(a) during and at the end of its useful life; and

d. An estimate of the total annual contribution necessary to defray the costs 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 in this Section 11.3, "reserve accounts" means monies that the Community Board has identified for use to defray the future repair or replacement of, or additions to, those major components which the Community Association is obligated to maintain. In addition, as used in this Section, "reserve account requirements" means the estimated funds which the Community Board has determined or required to be available at a specified point in time to repair, replace, or restore those major components which the Community Association is obligated to maintain under the Declaration.

11.3.3 Visual Inspections. At least once every three (3) years, the Community Board shall cause to be conducted a reasonably competent and diligent visual inspection of the accessible areas of the major components with respect to which the Community Association is required to repair, replace, restore, or maintain as part of a study of the reserve account requirements of the Covered Property if the current replacement value of the major components identified in the reserve study described in Section 11.3.2 above is equal to or greater than one-half of the Community Association's gross budget exclusive of the reserve account for such 3-year period.

11.4 Managing Agent's Handling of Community Association Funds. The Managing Agent, as set forth in the Articles of Incorporation for the Community Articles shall handle any Community Association funds in compliance with Section 1363.2 of the Civil Code as it may be amended or revised from time to time. In addition to the foregoing, all Community Association funds relating to Special Benefit Areas or a Special Benefit Area Budget shall not be commingled with other Community Association funds. At no time shall any Community Association funds relating to a Special Benefit Area be used for general Community Association purposes.

11.5 Withdrawal of Funds from Reserve Account. Withdrawal of funds from the Community Association's reserve account in excess of the sum of Two Hundred Dollars (\$200) shall require the signatures of either:

- a. two (2) Community Directors; or
- b. one (1) Community Director and an officer of the Community Association who is not also a Community Director.

11.6 Compensation. No officer shall receive any compensation for any service such officer may render to the Association as an officer; provided, however, any officer may be reimbursed for actual out-of-pocket expenses incurred by such officer in the performance of his or her duties.

ARTICLE 12

AMENDMENTS

12.1 Prior to Termination of Class B Votes. Except as otherwise limited by the Declaration, these Bylaws or the California Nonprofit Mutual Benefit Corporation Law, or any provision hereof, prior to termination of Class B Membership, if Declarant is still entitled to three (3) votes for each Residential Lot owned by Declarant or Merchant Builders, these Community Bylaws may be amended only with the vote or written consent of Declarant and of Delegates entitled to cast at least fifty-one percent (51%) of the Voting Power of Members other than Declarant and Merchant Builders. In addition to the foregoing, so long as there is a Class B membership in the Community Association, if the approval of the United States Department of Veterans Affairs has been obtained for the Covered Property, any amendment to these Bylaws shall require the prior approval of the United States Department of Veterans Affairs. A draft of any amendment requiring the approval of the United States Department of Veterans Affairs shall be submitted to the United States Department of Veterans Affairs for its approval prior to its approval by the Members.

12.2 Subsequent to Termination of Class B Votes. Subsequent to termination of Class B Membership, if Declarant is no longer entitled to three (3) votes for each Residential Lot owned by Declarant or Merchant Builders, as provided in the Declaration, these Bylaws may be amended only with the vote or written consent of Delegates entitled to cast at least fifty-one percent (51%) of the Voting Power of the Members and of Delegates entitled to cast at least fifty-one percent (51%) of the Voting Power of the Members other than the Declarant and Merchant Builders.

12.3 Amendment of Specific Provisions. Notwithstanding Section 12.1 and Section 12.2 hereof, the percentage of the Voting Power of the Community Association or of Members other than the Declarant and Merchant Builders necessary to amend a specific clause or provision in these Bylaws shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause or provision.

12.4 Further Approvals Required. Notwithstanding anything to the contrary contained in these Bylaws, Sections 7.8 and 7.23 of these Bylaws shall not be amended without the vote or