

BYLAWS
OF
LA COSTA OAKS
COMMUNITY ASSOCIATION

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BYLAWS
OF
LA COSTA OAKS
COMMUNITY ASSOCIATION
A California Nonprofit Mutual Benefit Corporation

ARTICLE 1

NAME AND LOCATION

1.1 Name and Principal Office. The name of the association is LA COSTA OAKS COMMUNITY ASSOCIATION, a California nonprofit mutual benefit corporation (hereinafter referred to as the "Community Association"). The Association is organized under the California Nonprofit Mutual Benefit Corporation Law. The principal office of the Community Association shall be located in the City of Carlsbad, County of San Diego, State of California.

ARTICLE 2

DEFINITIONS

2.1 Declaration. The "Declaration" shall mean, collectively, the Declaration of Covenants, Conditions and Restrictions of La Costa Oaks recorded in the Office of the County Recorder of San Diego, California, on June 27, 2003, as Instrument No. 2003-0765993, and re-recorded September 30, 2003 as Instrument No. 2003-1200575, and any amendments or supplements recorded or to be recorded pursuant thereto, for the real property legally described in the Declaration.

2.2 Other Definitions. Each and every definition set forth in Article 2 of the Declaration shall have the same meaning herein as therein and each and every such definition is incorporated by reference herein and made a part hereof.

ARTICLE 3

PRINCIPAL OFFICE

3.1 Principal Office. The principal office for the transaction of the business of the Community Association is hereby fixed and located within the Covered Property or as close as practicable thereto, in the County of San Diego, State of California. The Community Board is hereby granted full power and authority to change said principal office from one location to another within the County of San Diego.

ARTICLE 4

MEMBERS

4.1 Membership; Voting Rights. The qualification for membership, the classes of membership and the voting rights of Members and voting rights through Delegates shall be as set forth in Article 3 of the Declaration, all of which are hereby incorporated by reference herein. The provisions of these Bylaws, which are binding upon all Members, are not exclusive, as Members shall also be subject to the terms and provisions of the Community Articles, the Declaration and the Community Association Rules.

4.2 Membership Certificates. In its discretion, the Community Board may, but need not, issue appropriate membership certificates evidencing membership in the Community Association.

4.3 Place of Meeting. All meetings of Members shall be held at the principal office of the Community Association, or at such other place in the County of San Diego, in reasonable proximity to the Covered Property, as may be fixed from time to time by resolution of the Community Board.

ARTICLE 5

DELEGATE DISTRICTS AND SELECTION OF DELEGATES

5.1 Delegate Districts. Pursuant to the terms of the Declaration, Delegate Districts shall be established and Delegates shall be appointed to cast all votes and exercise all authority of the Members on behalf of the Owners. The Covered Property shall be divided into Delegate Districts and Delegates shall be selected as described below.

5.1.1 Portions of the Covered Property With a Condominium Project Association. If a Condominium Project Association is created for the administration of any Project within the Covered Property, then the real property covered by the Project Declaration shall constitute one (1) Delegate District ("Project Delegate Districts"). The president of the Condominium Project Association shall be the Delegate of such Delegate District. The vice-president of the Condominium Project Association shall act as an alternate Delegate for the President and shall perform all of the duties of the Delegate in the event the president is removed from office or otherwise resigns pursuant to the provisions of the bylaws of such Condominium Project Association, until such time as a successor president is appointed. Immediately upon the appointment of a successor to fill any vacancy in the office of president of any Condominium Project Association, such successor shall automatically become the appointed Delegate of such Delegate District.

5.1.2 Portions of the Covered Property Without a Condominium Project Association. For portions of the Covered Property for which a Condominium Project Association is not created ("Special Delegate Districts"), the Delegate District(s) shall be established by Declarant from time to time by the recordation in the Office of the County Recorder of a written instrument signed by Declarant containing a legal description of the Special Delegate District and a statement that such Special Delegate District shall constitute all or a portion of a Delegate District. The requirement for a written instrument may be satisfied by the recordation of a Supplementary Declaration. The Delegate (and alternate Delegate) to represent any Special Delegate District, shall be elected, removed and instructed by Members in such Special Delegate District in accordance with the voting procedures set forth below, except that such Delegate shall not be entitled to cast any votes allocated to the Declarant. In electing such Delegate, each Owner shall be entitled to cast a number of votes equal to the number of votes allocated to such Owner pursuant to the Section of Article 3 of the Declaration entitled "Classes of Voting Membership/Delegate Vote Entitlement".

5.2 Selection of Delegates in Special Delegate Districts.

5.2.1 Meetings; Selection and Removal of Delegate. There shall be a meeting of the Members in Special Delegate Districts every year in which the term of office of the Delegate representing such Special Delegate District expires. The first meeting of the Members in such Special Delegate District shall be held at any time within ninety (90) days prior to an Annual Meeting of the Delegates or such earlier time, if directed by the Community Board. At the first meeting of the Members of a Special Delegate District and at each subsequent biennial meeting (which shall be held at any time within ninety (90) days of the Annual Meeting of the Delegates), the Members shall elect a Delegate (and alternative Delegate) to represent them. The Delegate shall be elected by a majority of a quorum of the Members in such Delegate District. Such Delegate shall continue in office for two (2) years or until a successor is elected, whichever is later, unless such Delegate is removed with or without cause, pursuant to the Section of this Article entitled "Removal of Delegates".

5.2.2 Location and Notice of Meetings. Meetings of Members shall be held at a location within the Special Delegate District or at such other convenient location on or near the Covered Property or within the County of San Diego, California, as may be designated in the notice of the meeting. Written notice of meetings shall state the place, date and time of the meeting and those matters which the Community Board, at the time the notice is given, intends to present for action by the Members. Those Members appearing in the official records of the Community Association on the date ninety (90) days prior to the scheduled date of any meeting of the Members required or permitted to be held under the Declaration as record owners of Residential Lots located in the Special Delegate District shall be entitled to notice of any such meetings. Notice of any meeting at which Delegates are to be elected shall include the names of all those who are nominees at the time the notice is given to Members. Unless approved by a majority of the Community Directors, nominations for Delegates shall not be accepted on the date of the meeting at which the Delegates are to be selected. The Secretary of the Community Association shall cause notice of meetings in such Special Delegate District to be sent to each

Member within the Special Delegate District no later than fifteen (15) days prior to the meeting. A special meeting of the Members in such Special Delegate District may be called at any reasonable time and place by written request (a) by a Merchant Builder for such Special Delegate District, for so long as the Merchant Builder (if any) is a Class B Member, (b) by Declarant, for so long as Declarant is a Class B or Class C Member, (c) by the Delegate representing Members in such Special Delegate District, or (d) by the Members in the Special Delegate District having five percent (5%) of the total voting power within such Special Delegate District. To be effective, such written request shall be delivered to either the President, Vice President, or Secretary of the Community Association. Such officers shall then cause notice to be given to Members within the Special Delegate District entitled to vote that a meeting will be held at a time and place to be fixed by the Community Board of Directors of the Community Association not less than fifteen (15) days, nor more than thirty (30) days after receipt of the written request. Notice of special meetings shall specify the general nature of the business to be undertaken and that no other business may be transacted.

5.2.3 Joint Owner Voting. If there is more than one (1) record Owner of any Residential Lot, any and all of the Owners owning such Residential Lot may attend any meeting of the Members within the Special Delegate District, but the vote attributable to the Residential Lot so owned shall not be increased by reason thereof, and only one such co-Owner shall be entitled to exercise the vote to which the Residential Lot is entitled. A majority of the co-Owners of a Residential Lot may from time to time designate in writing one of their number to vote. Fractional votes shall not be allowed, and the vote for each Residential Lot shall be exercised, if at all, as a unit. Where no voting co-Owner is designated, or if the designation has been revoked, the vote for the Residential Lot shall be exercised as the co-Owners owning a majority of interests in the Residential Lot direct.

5.2.4 Proxies. At all meetings of Members each Member may be present in person or by a representative, known as a proxy, duly authorized by an instrument in writing and filed with the Community Board prior to the meeting to which it is applicable. Proxies shall specify the person or persons authorized to exercise the proxy and the length of time the proxy will be valid. Any proxy distributed by any person to the membership of the Association shall afford the opportunity to specify a choice between approval or disapproval between each matter or group of matters to be acted upon, and where the Member specifies a choice, the vote shall be cast in accordance with that choice. It is not mandatory that a candidate for election to the governing body be specifically named in the proxy. All proxies shall be revocable at any time by written notice to the Community Board or by attendance in person by such Member at the meeting for which such proxy was given and all proxies shall automatically cease when the ownership interest or interests of such Member entitling him to membership in the Association ceases. In any event, no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy, unless otherwise provided in the proxy, except that the maximum term of any proxy shall be three (3) years from the date of execution. Such powers of designation and revocation may be exercised by the guardian of any such Member's estate or by such Member's conservator, or in the case of a minor having no guardian, by the parent entitled to such minor's custody, or during the administration of any such Member's estate, by his or her executor or

administrator where the latter's interest in such property is subject to administration in his or her estate.

5.2.5 Vote Appurtenant to Residential Lot. The right to vote in any such Special Delegate District may not be severed or separated from the ownership of the Residential Lot to which it is appurtenant, except that any Member may give a revocable proxy in the manner described above, or may assign such Owner's right to vote to a lessee or tenant actually occupying his Residential Lot or Mortgagee of the Residential Lot concerned, for the term of the lease or Mortgage, and any sale, transfer or conveyance of such Residential Lot to a new Owner or Owners shall operate automatically to transfer the appurtenant vote to the new Owner subject to any assignment of the right to vote to a lessee or Mortgagee as provided herein.

5.2.6 Quorum. The presence at any meeting, in person or by written proxy, of the Members entitled to vote at least twenty-five percent (25%) of the total votes within the Special Delegate District shall constitute a quorum. If any meeting cannot be held because a quorum is not present, the Members present, either in person or by proxy, may, except as otherwise provided by law, adjourn the meeting to a time not less than five (5) nor more than thirty (30) days from the time the original meeting was called, at which meeting the quorum requirement shall be the presence, in person or by written proxy, of the Members entitled to vote at least five percent (5%) of the total votes within such Special Delegate District. If a time and place for the adjourned meeting is not fixed by those in attendance at the original meeting or if for any reason a new date is fixed for the adjourned meeting after adjournment, notice of the time and place of the adjourned meeting shall be given to Members in the manner prescribed for annual or special meetings, as applicable. The Members present at each meeting shall select a chairperson to preside over the meeting and a secretary to transcribe minutes of the meeting. Unless otherwise expressly provided, any action authorized hereunder may be taken at any duly noticed meeting of such Members owning Residential Lots in a Special Delegate District for which a Condominium Project Association has not been created, upon the affirmative vote of the Members having a majority of a quorum of the voting power present at such meeting, in person or by proxy; provided, however, that the only matters that may be voted upon at any meeting attended, in person or by proxy, by less than one-third of the total voting power of the Members within the Special Delegate District are matters for which notice of the general nature of such matter was provided to the Members in the notice of the meeting.

5.3 Costs of Election. The Community Association shall pay all costs of providing notices and conducting any meetings within a Special Delegate District.

5.4 Failure to Elect a Delegate. The Community Board shall have the right to appoint a Delegate to represent the membership of any Special Delegate District in the absence of an election by the Owners within such Special Delegate District or to serve until any such Delegate is duly elected.

5.5 Delegate for Declarant's Votes. Notwithstanding anything to the contrary set forth herein, Declarant shall appoint its own Delegate to cast all votes allocated to Declarant

pursuant to the provisions of the Section of Article 3 of the Declaration entitled "Membership and Voting Rights of the Association," which Delegate may only be removed or replaced by Declarant.

5.6 Voting Procedure of Delegates. Each Delegate District shall elect one (1) Delegate (and one (1) alternate Delegate) to the Community Association to exercise the voting power of all of the Class A Members except the votes allocated to Declarant and Merchant Builders in such Delegate District. Any votes allocated to Declarant and Merchant Builders shall be cast by the Delegate selected by Declarant. The chairperson of any meeting at which a Delegate or alternate Delegate is elected shall certify in writing to the Community Board the name and address of the Delegate or alternate elected, the time and place of the meeting at which the election occurred and the Delegate District which the Delegate represents. Each Delegate shall be entitled to cast the Class A and Class B votes representing Residential Lots in his or her Delegate District with respect to each such Residential Lot only during such periods as the Owner of such Residential Lot may be entitled to cast votes for the election of a Delegate as provided herein. Delegates may only act personally at a meeting of the Delegates of the Delegate District or by written ballot, and may not act by proxy. If a Delegate ("Absent Delegate") is not present at a duly called meeting of the Delegates, then the alternate for such Absent Delegate may attend the meeting and exercise all rights, powers and votes to which the Absent Delegate would be entitled. If the Absent Delegate should arrive prior to the adjournment of any such meeting, the alternate shall no longer be entitled to act in the place of the Absent Delegate; provided that such relinquishment of authority by the alternate shall not invalidate any matter previously voted or acted upon by the alternate in his or her temporary capacity as Delegate.

5.7 Delegate Qualifications and Nominations. Delegates must be (a) an authorized agent, employee or other appointee of Declarant or a Merchant Builder, or (b) a Member of the Community Association who is an Owner in the Delegate District for which such Delegate is being elected. If the Member is a corporation, partnership, or other such entity, the authorized agent of such corporation, partnership or other entity shall be eligible for election as a Delegate. Any Member within a Special Delegate District may nominate any eligible person, with that person's consent, for election as delegate in a Special Delegate District. Such nominations shall be delivered in writing to the Community Board at such time and place as the Community Board may specify.

5.8 Delegate Terms. Each Delegate from a Special Delegate District, shall serve a term of two (2) years. Delegates for Project Delegate Districts shall serve a term in accordance with the requirements of the Condominium Project Association. The office of a Delegate shall be deemed vacant upon the death, resignation, removal or judicial adjudication of mental incompetence of a Delegate, or upon the Delegate's failure to satisfy all of the qualifications of Delegates as specified in the Section of this Article entitled "Delegate Qualifications and Nominations" or in case the Members in any Delegate District fail to elect a Delegate. Except as provided in Section 5.5 hereof, Delegate vacancies caused by any reason other than the removal of a Delegate shall first be filled by the alternate Delegate, and if there is no alternate Delegate,

by a vote of a majority of the Community Board. Subject to the eligibility and vacancy provisions herein, each such person shall serve the remainder of the unexpired term of office of the predecessor Delegate, or until a successor is elected at a meeting of the Members in such Delegate District.

5.9 Removal of Delegates. A Delegate from a Special Delegate District may be removed with or without cause by the vote in person or by proxy at any duly constituted meeting of at least a majority of a quorum of the Members in the Delegate District; provided, that in no event shall a Delegate be removed unless the votes cast in favor of such removal equal the lesser of (a) the number of votes which elected such Delegate to his or her current term, or (b) a majority of the total voting power of the Members in such Delegate District.

5.10 Allocation of Delegate Votes. All voting rights shall be subject to the provisions set forth in the Declaration and these Bylaws. Whenever any provision of the Declaration or Bylaws requires a vote of the Members to elect Community Directors or to increase or impose any Community Assessments or to amend any provision of the Declaration or Bylaws or to initiate any claim, including litigation under the provisions of Article 4 of the Declaration entitled "Claims and Actions" ("Owner Participation Issues") such matters shall be submitted to the Delegates in accordance with the provisions set forth below.

5.10.1 Procedures for Obtaining Votes for Owner Participation Issues. Written notice of the substance of the Owner Participation Issues shall be given to the Delegates at least sixty (60) days prior to the date on which the Owner Participation Issues shall be discussed at a meeting of the Delegates. During the sixty (60) day period prior to the meeting, the Delegates shall submit the Owner Participation Issues to a vote of the Members within their respective Delegate Districts. Except as otherwise specifically provided in the Declaration or these Bylaws, as long as there exists a Class B Membership, all Owner Participation Issues shall require the approval of Delegates casting the specified percentage of the voting power of both the Class A and the Class B membership and upon termination of all of the Class B membership, all Owner Participation Issues shall require the approval of (a) the specified percentage of the voting power of the Delegates, and (b) such specified percentage of the voting power of the Delegates attributable to Members other than Declarant and all Merchant Builders. When voting on Owner Participation Issues each Delegate shall cast all of the votes attributable to Owners represented by such Delegate actually voting (whether in person, proxy, written ballot, or, in the case of Declarant's Delegate, based upon written instructions) in such Delegate District "for" or "against" such Owner Participation Issues in the same manner as such votes were cast by the voting Owners.

5.10.2 Procedures for Delegate Action Items. Whenever a matter which the Declaration, Community Articles, Bylaws, the California Civil Code or the California Corporations Code requires to be approved by the vote of Delegates representing a majority or other specified percentage of the total voting power of the Community Association (i.e., excluding matters requiring approval of the Class C Member or a mere majority of a quorum of Delegates as defined in the Bylaws) is presented to the Delegates for approval other than an

Owner Participation Issue, the Delegates shall cast the votes of the Owners represented by such Delegate actually voting (whether in person, by proxy or written ballot, or in the case of Declarant's Delegate, based upon written instructions) in such Delegate District's "for" or "against" such matters in the same manner as such votes were cast by the voting Owners. The Delegate shall cast votes attributable to Owners within the Delegate's District who have not voted on such matters ("Absentee Votes") as set forth below.

a. If fifteen percent (15%) or more of the votes in the Delegate District attributable to Owners other than Declarant and the Merchant Builders have been cast, then any Absentee Votes attributable to such Owners shall each be cast "for" and "against" the applicable matter in the same proportions as the votes cast by the Owners other than Declarant as provided above.

b. If less than fifteen percent (15%) of the votes in the Delegate District attributable to Owners other than Declarant and Merchant Builders have been cast, then the Absentee Votes shall be voted "for" or "against" the applicable matter in such proportions as the Delegate shall, in the Delegate's discretion, determine appropriate.

5.10.3 Declarant's Votes. Notwithstanding anything to the contrary set forth here, the votes attributed to Declarant (or assigned by a Merchant Builder to Declarant) shall be voted by Declarant's Delegate, in accordance with Declarant's instructions.

5.11 Voting Reports. In order to verify compliance with the foregoing voting requirements, each ballot cast by a Delegate (except a Delegate selected by Declarant to cast Declarant's votes) shall contain such Delegate's certification of the following information: (a) the total number of votes in the Delegate District; (i) the total number of votes cast "for" and "against" the particular matter on behalf of Members other than Declarant and Merchant Builders; and (ii) the total number of votes cast by such Delegate "for" and "against" the particular matter. The inspector of the elections shall tabulate the total number of votes cast by all Delegates in each of the foregoing categories in order to determine whether the necessary approvals have been obtained. It will be conclusively assumed for all purposes of Community Association business that each Delegate casting votes on behalf of the Owners of Residential Lots in his or her Delegate District will have acted with the authority and consent of all such Owners. All agreements and determinations lawfully made by the Community Association in accordance with the voting procedures established herein, and in the Bylaws, shall be deemed to be binding upon all Members, Owners and their respective successors and assigns.

5.11.1 Transfer of Membership Upon Sale. If the Owner of any Residential Lot fails or refuses to transfer the membership registered in his or her name to the purchaser of such Residential Lot upon transfer of fee title thereto, the Community Board shall have the right to record the transfer upon the books of the Community Association. The Community Association may levy a transfer fee against new Owners in the amount of the actual costs incurred by the Community Association to change its records and their Residential Lots in order to reimburse the

Community Association for the costs of transferring the memberships to the new owners on the records of the Community Association.

ARTICLE 6

MEETINGS OF DELEGATES

6.1 Place of Meeting. All meetings of Delegates shall be held at the principal office of the Community Association, or at such other place in the County of San Diego, in reasonable proximity to the Covered Property, as may be fixed from time to time by resolution of the Community Board.

6.2 Annual Meeting. The first Annual Meeting of the Delegates shall be held no later than nine (9) months after the closing and recording of the sale of the first Residential Lot under the first Public Report issued for the Covered Property. A regular Annual Meeting of the Delegates shall be held in the same month of each year-thereafter on a day and at an hour to be established by the Community Board. Any Mortgagee, through its designated representative, shall be entitled to attend any such meeting but except as provided in the Article 18 of the Declaration entitled "Mortgagee Rights," shall not be entitled to vote at the meeting.

6.3 Special Meetings. It shall be the duty of the President to call a special meeting of the Delegates, either in his or her discretion, as directed by resolution of a majority of a quorum of the Community Board of Directors, or upon a petition being presented to the Secretary signed by Delegates representing at least five percent (5%) of the Voting Power. The notice of any special meeting shall be given within twenty (20) days after adoption of such resolution or receipt of such petition and shall state the time and place of such meeting and the purpose thereof. The special meeting shall be held not less than thirty-five (35) days nor more than ninety (90) days after adoption of such resolution or receipt of such petition. No business shall be transacted at a special meeting other than business the general matter of which is disclosed in the notice. Each First Mortgagee may designate a representative to attend all special meetings of the Delegates. The special meetings of the Delegates shall, at the election of the Community Board, be open to attendance by all Members and by Mortgagee representatives to the extent of the permissible capacity of the meeting room.

6.4 Record Date and Closing Membership Register. The Community Board may fix, in advance, a date as the record date for determining which Delegates are entitled to notice of a meeting of Neighborhood Members. Such "notice" record date shall be not more than ninety (90) nor less than ten (10) days before the date of the meeting. If no "notice" record date is fixed, the record date for notice is the close of business on the business day preceding the day on which notice is given. The Community Board may fix, in advance, a date as the record date for determining which Delegates are entitled to vote at a meeting of the Delegates. Such "voting" record date shall be not more than sixty (60) nor less than ten (10) days before the date of the meeting. If no "voting" record date is fixed, Delegates who are otherwise eligible to vote are entitled to vote at the meeting. The Community Board may fix, in advance, a date as the record

date for determining which Neighborhood Members are entitled to cast written ballots. Such "written ballot" record date shall be not more than sixty (60) nor less than ten (10) days before the date on which the first written ballot is mailed or solicited. If no "written ballot" record date is fixed, Delegates on the day the first written ballot is mailed or solicited who are otherwise eligible to vote are entitled to cast written ballots.

6.5 Notices of Meetings. It shall be the duty of the Secretary to send a notice of each Annual Meeting of the Delegates by first-class mail at least fifteen (15) days but not more than ninety (90) days prior to such meeting, and a notice of each special meeting forty-eight (48) hours prior to such meeting if personally delivered (including delivery by telephone, voice message system or other system or technology designed to record and communicate messages, facsimiles, electronic mail or other electronic means), or four (4) days prior to such meeting if mailed by United States mail. The notice of any meeting shall state the purpose thereof as well as the day, hour and place where the meeting is to be held. The notice may set forth time limits for speakers and nominating procedures for the meeting. The notice of any meeting at which the Community Directors are to be elected shall include the names of all those who are nominees at the time the notice is given to the Delegates. Such notice shall be posted in a conspicuous place within the Covered Property, and such notice shall be deemed served upon any Delegate upon posting if no address has been furnished the Secretary.

6.6 Quorum of Delegates. The presence at a meeting of Delegates entitled to cast at least twenty-five percent (25%) of the total votes of the Voting Power shall constitute a quorum for any action except as otherwise provided in the Community Articles, the Declaration, or these Bylaws. If any meeting cannot be held because a quorum is not present, the Delegates representing a majority of the votes present may adjourn the meeting to a time not less than five (5) days nor more than thirty (30) days from the time the original meeting was called. If the time and place of the adjourned meeting is not fixed by those in attendance at the original meeting or if for any reason a new date is fixed for the adjourned meeting after adjournment, notice of the time and place of the adjourned meeting shall be given to Delegates in the manner prescribed for regular or special meetings.

6.7 Approval of the Delegates. Except where a greater portion of the Voting Power is required by the Community Articles, the Declaration, these Bylaws, the California Civil Code or the California Corporations Code, a majority of the votes represented and voting at a duly held meeting at which a quorum is present (which affirmative votes also constitute a majority of the required quorum) shall constitute approval of the Delegates and prevail at all meetings. The Delegates present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Delegates to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the total voting power required to constitute a quorum.

6.8 Action by Written Ballot. Unless otherwise prohibited by the Community Articles, the Declaration, these Bylaws, the California Civil Code or the California Corporations

Code, any action which may be taken at any regular or special meeting of Delegates may be taken without a meeting if taken in accordance with the provisions of this Section.

6.8.1 The Community Association must distribute a written ballot to every Delegate entitled to vote on the matter, which shall set forth the proposed action, provide an opportunity to specify approval or disapproval of any proposal, and provide the time within which to return the ballot to the Community Association, which shall be not less than fifteen (15) days from the date that the written ballot is distributed to the Delegates. Any written ballot in which the directors to be voted upon are named therein as candidates and which is marked by a Delegate "withhold" or otherwise marked in a manner indicating that the authority to vote for the election of directors is withheld shall not be voted either for or against the election of a director.

6.8.2 Approval by written ballot pursuant to this Section shall be valid only when the number of votes cast by ballot within the specified time period equals or exceeds the quorum required to be present at a meeting authorizing the action, and the number of approvals equals or exceeds the number of votes that would be required to approve such action at a meeting at which the total number of votes cast was the same as the number of votes cast by ballot.

6.8.3 Ballots shall be delivered to Delegates in a manner consistent with the requirements of Section 6.5 entitled "Notice of Meetings". All such solicitations shall indicate the number of responses needed to meet the quorum requirement and shall state the percentage of approvals necessary to pass the measure submitted. The solicitation must specify the time by which the ballot must be received in order to be counted.

6.8.4 A written ballot may not be revoked.

6.9 Parliamentary Procedure. The President of the Community Association or another person designated or appointed by the Community Board at a meeting of the Community Board shall preside over meetings of Delegates. All questions of parliamentary Procedure shall be decided by the presiding officer.

6.10 Consent of Absentees. The transactions of any meeting of the Delegates, either annual or special, however called and noticed, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present, and if, either before or after the meeting, each of the Delegates not present signs a written waiver of notice, or a consent to the holding of such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

6.11 Minutes, Presumption of Notice. Minutes or a similar record of the proceedings of meetings of Delegates, when signed by the President or Secretary, shall be presumed truthfully to evidence the matters set forth therein. A recitation in the minutes of any such meeting that notice of the meeting was properly given shall be prima facie evidence that such notice was given.

ARTICLE 7

COMMUNITY DIRECTORS

7.1 Powers. The Community Board shall have all powers conferred upon the Community Association as set forth herein and in the Declaration and the Community Articles, excepting only those powers expressly reserved to the Members.

7.2 Duties. In addition to those duties of the Community Board required by law, it shall be the duty of the Community Board:

7.2.1 to select, appoint and remove all officers, agents and employees of the Community Association and to prescribe such powers and duties to them as may be consistent with applicable law, the Articles, the Declaration and these Bylaws;

7.2.2 to cause to be kept a complete record of all of its acts and doings and to present a statement thereof to the Delegates, or at any special meeting when such statement is requested in writing by Delegates representing one-fourth (1/4) of the votes other than votes of the Declarant or Merchant Builders; and

7.2.3 to perform all obligations of the Community Association as provided in the Declaration and these Bylaws.

7.2.4 to supervise all officers, agents and employees of the Community Association, and to see that their duties are properly performed.

7.3 Number. Until the first Annual Meeting, the Community Board shall consist of three (3) Community Directors appointed by Declarant. At the first Annual Meeting the number of Community Directors on the Community Board shall be increased to five (5) Community Directors who shall be Members or representatives of Declarant. The Community Board may, upon majority vote, elect to increase the number of directors to seven (7) directors or, if increased, to subsequently decrease the number to five (5) Community Directors.

7.4 Election Committee and Nomination of Community Directors. As provided in the Declaration, an Election Committee may be appointed annually by the Community Board to make rules for and supervise nominations, voting procedures, voting requirements and the orderly and fair election of Community Directors. The Election Committee shall consist of a Chairman, who shall be a member of the Community Board, and two (2) or more persons who shall be Members; provided, however, as long as any Class B memberships are outstanding, the Community Board may appoint persons who are not Members to the Election Committee. Prior to any meeting of the Members at which Community Directors shall be elected, the Election Committee, under reasonable procedures adopted by it, shall collect nominations for the Community Directors to be elected at such meeting. Without limiting the generality of the foregoing, the Election Committee may refuse to accept any person as a candidate unless Delegates representing at least five percent (5%) of the Members, as reasonably determined by

the Community Board, have signed a petition endorsing such person's candidacy. Residency in the Covered Property need not be a requirement for selection as a Community Director; provided, however, that once neither Declarant nor a Merchant Builder owns any interest in or holds a mortgage or deed of trust encumbering any portion of La Costa Oaks Community, the Community Board may, in its discretion, require that Community Directors be selected on the basis of residency in the Covered Property. The notice of the meeting of Delegates at which Community Directors are to be elected shall include a ballot in a form adopted by the Election Committee indicating the candidates that have been accepted for nomination by the Election Committee.

7.5 Election and Term of Office. Until the first Annual Meeting of the Delegates, the Community Board shall consist of those Community Directors who are appointed by Declarant. Thereafter, election to the Community Board shall be by secret ballot. At such election, the Delegates may cast in respect to each vacancy as many votes as they are entitled to cast under the provisions of the Declaration (and subject to cumulative voting as therein described). The candidates receiving the highest number of votes shall be deemed elected. The term of office of the Community Directors shall be three (3) years for so long as there are Class B Members as provided in the Declaration and thereafter the term of office of Community Directors shall be two (2) years, except as provided below. Elections shall be held on a staggered basis as provided for below. At the organizational meeting the Delegates shall elect each of the five (5) Community Directors. The three (3) Community Directors who receive the highest number of votes shall serve for a term of three (3) years and the remaining two (2) Community Directors shall each serve for a term of two (2) years. In the event the Community Board votes to increase the initial number of Community Directors to seven (7), then the additional two (2) Community Directors shall serve for an initial term of two (2) years. For so long as there are Class B Members, upon the expiration of such terms, all successor Community Directors shall be elected to serve two (2) year terms. After the Class B membership has been converted to Class A membership, the first Community Directors being elected to replace Community Directors whose terms have expired shall serve a (1) year term. Upon the expiration of the terms of all Community Directors thereafter, all successor Community Directors shall be elected to serve two (2) year terms. Notwithstanding the foregoing, upon a majority vote, the Community Board may elect to retain three (3) year terms for Community Directors after the expiration of Class B membership, effective at the next annual meeting. Successor Community Directors shall be elected at the next annual meeting corresponding with the expiration of the terms. All Community Directors shall hold office until their respective successors are elected. Elections to the Community Board shall be in accordance with the provisions of the California Nonprofit Mutual benefit Corporation Law.

7.6 Removal. At any special meeting of the Delegates of which notice has been given properly as provided in these Bylaws, the entire Community Board or any individual Community Director may be removed from office as hereinafter set forth, provided that the same notice of said special meeting has also been given to said entire Community Board or any individual Community Director whose removal is to be considered at said special meeting. The entire Community Board or any individual Community Director may be removed from office by a

majority of the affirmative votes cast in the voting on any motion or resolution for removal. However, unless the entire Community Board is removed, an individual Community Director shall not be removed prior to the expiration of such Community Director's term of office if the number of votes cast against the motion or resolution for such Community Director's removal would be sufficient to elect the Community Director if voted cumulatively at an election at which the same total number of votes were cast and the entire number of Community Directors authorized at the time of the most recent election of the Community Directors were then being elected; provided, however, if a special meeting is called to remove a Community Director elected by Declarant, then until Declarant or any Merchant Builder no longer owns any interest in or holds a mortgage or deed of trust encumbering any portion of the Covered Property, no such Community Director shall be removed without the consent of Declarant. Upon any such motion or resolution for removal, every Delegate may cumulate his or her vote or votes, as the case may be, in the same manner as provided for the election of Community Directors in the Declaration. In addition, Community Directors elected by the Class A Members pursuant to the Declaration may only be removed by the vote or consent as required under the Declaration. In the event that any or all Community Directors are so removed, new Community Directors may be elected at the same meeting.

7.7 Vacancies. Vacancies on the Community Board may be filled by a majority of the Community Directors, though less than a quorum, and each Community Director so elected shall hold office until such Community Director's successor is elected at an annual meeting of Delegates, or at a special meeting of Delegates called for that purpose. A vacancy or vacancies shall be deemed to exist in case of the death, resignation or removal of any Community Director. If the Delegates shall increase the authorized number of Community Directors but shall fail to elect the additional Community Directors as provided for at the meeting at which such increase is authorized, or at an adjournment thereof, or in case the Delegates fail, at any time, to elect the full number of the authorized Community Directors, a vacancy or vacancies shall be deemed to exist. The Delegates may at any time elect Community Directors to fill any vacancy not filled by the Community Directors and may elect the additional Community Directors at the meeting at which an amendment of these Bylaws is voted authorizing an increase in the number of Community Directors.

7.8 Resignation. If any Community Director tenders his or her resignation to the Community Board, the Community Board shall have the power to elect a successor to take office at such time as the resignation shall become effective; provided however, that a director elected by Declarant using its Class C membership will be replaced only by Declarant. No reduction of the number of Community Directors shall have the effect of removing any Community Director from office prior to the expiration of his or her term of office.

7.9 Compensation. No Community Director shall receive any compensation for any service such Community Director may render to the Community Association as a Community Director; provided, however, any Community Director may be reimbursed for actual out-of-pocket expenses incurred by such Community Director in the performance of his or her duties. The Community Board shall also have the right to hire any consultants as may be deemed

necessary by the Community Board, including consultants to assist the Architectural Committee and to compensate such consultants.

7.10 Organizational Meeting of the Community Directors. As soon as reasonably practical, following each annual meeting of the Delegates, the Community Board shall hold a regular meeting for the purpose of organization, election of officers and the transaction of other business. Notice of such meeting is hereby dispensed with.

7.11 Other Regular Meetings. Other regular meetings of the Community Board shall be held when business warrants such a meeting as determined by the Community Board, but not less than every three (3) months at such place and hour as may be fixed from time to time by resolution of the Community Board. The Community Board shall select a meeting place. Should any such meeting fall upon a legal holiday, then that meeting shall be held at the same time on the next day which is not a legal holiday. Notice of the time and place of any such meeting shall be communicated to Community Board members not less than four (4) days prior to the meeting; provided, however, that notice of a meeting need not be given to any Community Board member who has signed a waiver of notice or a written consent to holding of the meeting. Notice shall be given by first class mail, personal delivery or overnight courier, telephone (including a voice message system or other system or technology designed to record and communicate messages), facsimiles, electronic mail or other electronic means to all Community Board members.

7.12 Special Election. As long as a majority of the voting power of the Community Association resides in the Declarant, or as long as there are two outstanding classes of membership in the Community Association, not less than twenty percent (20%) of the Community Directors (the "specially elected Community Directors") shall be elected solely by the votes of Delegates other than Declarant. The election of the specially elected directors shall take place along with the regular election of Community Directors. At such meeting of Delegates, nominations for the specially elected Community Director shall be made from the floor. When nominations have been closed, the special election shall take place. Declarant shall not have the right to participate in or vote in such special election (although Declarant or Declarant's representatives may be present), and the candidates receiving the highest number of votes up to the number of specially elected directors to be elected shall be deemed to be the specially elected Community Directors, and their term shall be the same as that of any other Community Director. Unless Delegates (excluding Declarant) holding a majority of all voting rights (excluding any voting rights held by Declarant) assent by vote or written consent, such specially elected Community Directors cannot be removed. In case of the death, resignation, or removal of a specially elected Community Director, the provisions set forth in this Section respecting the election of a specially elected Community Director shall apply as to the election of a successor. Except as provided in these Bylaws, the provisions of these Bylaws and of the Articles and the Declaration applicable to Community Directors, including their election and removal, shall apply to a specially elected Community Director.

7.13 Emergency Meetings. An emergency meeting of the Community Board may be called by the President of the Community Association, or by any two (2) members of the Community Board other than the President, if there are circumstances that could not have been reasonably foreseen which require immediate attention and possible action by the Community Board, and which of necessity make it impracticable to provide notice to Members as required in Section 7.18 of these Bylaws.

7.14 Presiding Officer. The president of the Community Association shall be the chairman of the Community Board and shall preside at all meetings of the Community Board.

7.15 Waiver of Notice. The transaction of any business at any meeting of the Community Board, however called and noticed, or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after the meeting, each of the Community Directors not present signs a written waiver of notice or a consent to holding such meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the records of the Community Association or made a part of the minutes of the meeting.

7.16 Quorum. A majority of the total number of Community Directors shall constitute a quorum for the transaction of business at a meeting of the Community Board. Every act or decision done or made by a majority of the Community Directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Community Board. Community Directors may participate in a meeting through use of a conference telephone or similar communications equipment, so long as all Community Directors participating in such meeting can hear one another. Participation in a meeting pursuant to this Section constitutes presence in person at such meeting.

7.17 Adjournment. A quorum of the Community Directors may adjourn any Community Board meeting to meet again at a stated day and hour; provided, however, that in the absence of a quorum, a majority of the Community Directors present at any Community Board meeting, either regular or special, may adjourn from time to time until the time fixed for the next regular meeting of the Community Board.

7.18 Notice of Community Board Meetings to Members; Participation by Members; Executive Sessions. The secretary shall post a notice of the time and place of all regular and special Community Board meetings in a conspicuous place within the Community Common Area, or by mail, electronic mail or other electronic means, or delivery of the notice to each Residential Lot, or by newsletter or similar means of communication, except for an emergency meeting described in Section 7.13 above, not less than four (4) days prior to the scheduled time of the meeting. Regular and special meetings of the Community Board (excluding any meetings while the Community Board is in executive session) shall be open to all Members of the Community Association; provided, however, that Members who are not on the Community Board shall be permitted to speak at Community Board meetings subject to such reasonable time limits as may be set by the Community Board. In addition, if the nature of the business is first

announced in open session, the Community Board may vote to adjourn and reconvene in executive session out of the presence of the Members to discuss and vote upon litigation matters, matters that relate to the formation of contracts with third parties, personnel matters, and orders of business of a similar or otherwise sensitive nature. In any matter relating to the discipline of a Member, or the Member's payment of assessments, as specified in California Civil Code Sections 1367 and 1367.1, the Community Board shall meet in executive session with respect to such matter if requested by that Member, and the Member shall be entitled to attend the executive session. Any matter discussed in executive session shall be generally noted in the minutes of the Community Board.

7.19 Community Board Minutes. The minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes of any meeting of the Community Board, other than an executive session, shall be available to Members within thirty (30) days of the applicable meeting of the Community Board. The minutes, proposed minutes, or summary of the minutes shall be distributed to any Member upon request and upon reimbursement of the Community Association's cost for making that distribution. Further, the Members shall be notified in writing at the time that the pro-forma operating budget of the Community Association set forth in Section 11.2.1 of these Bylaws is distributed, or at the time of any general mailing to the entire membership of the Community Association, of their right to have copies of the minutes of meetings of the Community Board, and how and when those minutes may be obtained. As used in this Section, "meeting" includes any congregation of the majority of the members of the Community Board at the same time and place to hear, discuss, or deliberate upon any item of business scheduled to be heard by the Community Board, except those matters that may be discussed in executive session.

7.20 Action Taken Without a Meeting. Notwithstanding anything to the contrary contained in these Bylaws, the Community Directors shall have the right to take any action in the absence of a meeting which they could take at a meeting by obtaining the written consent of all the Community Directors. Such written consent shall be filed with the minutes of the proceedings of the Community Board. Any action so approved shall have the same effect as though taken at a meeting of the Community Board. An explanation of any action taken shall be posted at a prominent place within the Community Common Area within three (3) days after the written consents of all Community Directors have been obtained.

7.21 Absentee Ballots. The Community Board may make such provisions as it may consider necessary or desirable for absentee ballots.

7.22 Committees. Subject to any contrary provisions of the Declaration and these Bylaws, if any, the Community Board may appoint a nominating committee as provided in this Article. In addition, the Community Board may appoint such other committees as it deems appropriate in order to carry out its purpose.

7.23 Administration of Community Association's Civil Claims. Subject to any contrary provisions of the Declaration and these Bylaws, if any, the Community Board may

institute, defend, settle or intervene on behalf of the Community Association in litigation, arbitration, mediation or administrative proceedings in matters pertaining to (a) enforcement of the Community Governing Documents, or (b) damage to the Community Association Property; provided, however that no representative of Declarant on the Community Board shall vote on the initiation of any claim under California Civil Code Section 895 et seq., such that, from and after the date which is the earlier to occur of (a) the date Declarant advises that it has relinquished control of the Association or (b) the date which is five (5) years after the date of the first conveyance of a Residential Lot to an Owner under a Public Report, Declarant shall have no control over the Community Association's ability to decide whether to initiate a claim under such statutory provisions and in the event of such a vote, the affirmative vote of the two non-Declarant representatives on the Community Board shall be binding so long as a quorum of the Community Board is present at any meeting where such vote is taken.

ARTICLE 8

OFFICERS

8.1 Enumeration of Officers. The officers of the Community Association shall be a president and vice president, both of whom shall at all times be Community Directors, a chief financial officer and a secretary and such other officers as the Community Board may create from time to time by resolution. Officers other than the president and vice president may, but need not, be Community Directors.

8.2 Appointment; Term. The appointment of officers shall take place at the organizational meeting of the Community Board and thereafter at each meeting of the Community Board following each annual meeting of the Delegates. The officers of the Community Association, except such officers as may be elected in accordance with Sections 8.3 and 8.4 below, shall be appointed annually by the Community Board and each shall hold office for one (1) year unless such officer shall sooner resign, or shall be removed, or shall otherwise be or become disqualified to serve.

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

8.4 Delegation. The Community Directors and officers have the power to delegate any duties within this Article to third parties, such as the Management Company.

8.5 Resignation and Removal. Any officer may be removed from office with or without cause by the vote of a majority of all Community Directors then in office at any regular or special meeting of the Community Board at which a quorum is present. Any officer may resign at any time by giving written notice to the Community Board, the president or the secretary. Such resignation shall take effect on the date of receipt of such notice or at any later

time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

8.6 Vacancies. A vacancy in any office may be filled by appointment by the Community Board. The officer appointed to fill such vacancy shall serve for the remainder of the term of the officer he or she replaces.

8.7 Multiple Offices. Any two (2) or more offices, may be held by the same person.

8.8 Duties. The duties of the officers shall be as follows:

8.8.1 President. The president shall be the chief executive of the Community Association and shall have, subject to the control of the Community Board and the provisions of the Declaration, general supervision, direction and control of the business and officers of the Community Association. The president shall be an ex-officio member of all standing committees, if any, and shall have the general powers and duties of management usually vested in the office of the president of a corporation, and shall have such other powers and duties as may be prescribed by the Community Board or these Bylaws. The president and/or his designee shall ensure that orders and resolutions of the Community Board are carried out.

8.8.2 Vice President. The vice president shall act in the place and stead of the president in the event of the president's absence, inability or refusal to act, and when so acting, shall have all of the powers of, and be subject to all the restrictions upon, the office of president. The vice president shall have such other powers and shall exercise and discharge such other duties as may be required of him or her, from time to time, by the Community Board or these Bylaws.

8.8.3 Secretary. The Secretary shall keep, or cause to be kept, a book of minutes at the principal office or such other place as the Community Board may order, of all meetings and proceedings of the Community Board Delegates, with the time and place of the holding of same, whether regular or special, and if special, how authorized, the notice thereof given, the names of those present or represented at Delegates' meetings and the proceedings thereof. The Secretary shall keep, or cause to be kept, at the principal office, a membership register showing the following: (a) the names and addresses of all Delegates of the Community Board; (b) the names of the Delegates and their addresses and the addresses of the Members; (c) the property to which each membership relates; (d) the number of memberships held by each Delegate and Member and Delegate; (e) the number of votes represented by each Delegate; (f) the names of all Delegates; (g) the number and date of membership certificates issued, if any; and (h) the number and date of cancellation of membership certificates, if any. The Secretary shall give, or cause to be given, notice of all meetings of the Members and Delegates and of the Community Board required by these Bylaws or by law to be given, and he shall keep the seal of the Community Association in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Community Board or by these Bylaws.

8.8.4 Chief Financial Officer. The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the Community Association. The books of account shall, at all reasonable times, be open to inspection by any Community Director or by any Member. The chief financial officer shall deposit all monies and other valuables in the name and to the credit of the Community Association with such depositories as may be designated by the Community Board. The chief financial officer shall disburse the funds of the Community Association as may be ordered by the Community Board, shall render to the president and Community Directors, whenever they request it, an account of all his or her transactions as chief financial officer and of the financial condition of the Community Association, and shall have such other powers and perform such other duties as may be prescribed by the Community Board or these Bylaws.

8.9 Compensation. No Community Director shall receive any compensation for services performed in the conduct of the Community Association's business; provided, however, any Community Director may be reimbursed for expenses approved by the Community Board and incurred in carrying on the business of the Community Association. Nothing contained herein shall limit the Community Association from paying compensation to any members of any committees appointed by the Community Board, including the Architectural Committee.

ARTICLE 9

INDEMNIFICATION

9.1 Generally. A Community Director, officer, committee member, employee or other "agent" of the Community Association who was or is a party to or is threatened to be made a party to any "proceeding" (including a proceeding by or on behalf of the Community Association) because he or she is or has been a Community Director, officer, committee member, employee or "agent" of the Community Association shall be indemnified, defended and held harmless by the Community Association against all expenses, judgments, fines, settlements or other amounts actually and reasonably paid or incurred in connection with the "proceeding," action or suit to the maximum extent permitted by the California Nonprofit Mutual Benefit Corporation Law. Terms used in this Article shall have the same meaning as in Section 7237 of the California Corporations Code or any successor statute or law.

9.2 Approval. Upon written request to the Community Board by any person seeking indemnification, the Community Board shall promptly determine whether the applicable standard of conduct set forth in the California Nonprofit Mutual Benefit Corporation Law has been met. If so, the Community Board shall authorize indemnification. If the Community Board cannot authorize indemnification because the number of Community Directors who are parties to the "proceeding" with respect to which indemnification is sought prevent a quorum of Community Directors who are not parties to the "proceeding," the Community Board shall promptly call a special meeting of Delegates. At the meeting, the Delegates shall determine whether the applicable standard of conduct set forth in the California Nonprofit Benefit Corporation Law has been met. If so, the Delegates shall authorize indemnification. Members

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

approval by written ballot of (a) delegates entitled to cast at least ninety percent (90%) of the Voting Power of the Members of the Association other than Declarant, and (b) at least ninety percent (90%) of the Mortgagees.

12.5 Compliance with Business and Professions Code. Notwithstanding any other provision in this Article 12, the adoption of any amendment to these Bylaws shall comply with the provisions of California Business and Professions Code Section 11018.7, or any successor statutes or laws, to the extent that said Section is applicable.

ARTICLE 13

ENFORCEMENT OF BONDED OBLIGATIONS

13.1 Community Common Area Improvements. In the event that the Improvements to be installed by Declarant on the Community Common Area have not been completed prior to the issuance by the California Department of Real Estate of a Final Subdivision Public Report covering the subject portion of the Covered Property, and in the further event that the Community Association is the obligee under a bond to secure performance by the Declarant to complete such Improvements, then if such Improvements have not been completed and a notice of completion filed within sixty (60) days after the completion date specified in the planned construction statement appended to the bond, the Community Board shall consider and vote upon the question of whether or not to bring action to enforce the obligations under the bond. If the Community Association has given an extension in writing for the completion of any such Improvement, then the Community Board shall consider and vote on said question if such Improvements have not been completed and a notice of completion filed within thirty (30) days after the expiration of the extension period. In the event that the Community Board determines not to take action to enforce the obligations secured by the bond, or does not vote on the question as above provided, then, in either such event, upon petition signed by Members representing five percent (5%) or more of the Voting Power of the Community Association, excluding the Voting Power of Declarant, the Community Board shall call a special meeting of the Delegates to consider the question of overriding the decision of the Community Board or of requiring the Community Board to take action on the question of enforcing the obligations secured by the bond. Said meeting of Delegates shall be held not less than thirty-five (35) days nor more than forty-five (45) days following receipt of the petition. At said meeting, a vote of a majority of the Voting Power, excluding the vote of Declarant, to take action to enforce the obligations under the bond shall be deemed to be the decision of the Community Association, and the Community Board shall thereafter implement the decision by initiating and pursuing appropriate action in the name of the Community Association.

ARTICLE 14

GENERAL PROVISIONS

14.1 Checks, Drafts, etc. Except as otherwise set forth herein, all checks, drafts, or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the Community Association, shall be signed or endorsed by the president and chief financial officer or by such persons and in such manner as, from time to time, shall be determined by resolution of the Community Board.

14.2 Contracts, etc.; How Executed. The Community Board, except as otherwise provided in these Bylaws, may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument permitted under the Declaration or these Bylaws in the name of and on behalf of the Community Association, and such authority may be general or confined to specific instances; and unless so authorized by the Community Board, no officer, agent or employee shall have any power or authority to bind the Community Association by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

14.3 Inspection of Bylaws. The Community Association shall keep in its principal office for the transaction of business the original or a copy of these Bylaws, as amended, certified by the secretary, which shall be open to inspection by all of the Members at all reasonable times.

14.4 Singular Includes Plural. Unless the context otherwise requires, the general provisions, rules of construction and definitions in the California Nonprofit Mutual Benefit Corporations Law shall govern the construction of these Bylaws. Without limiting the generality of the foregoing, wherever the context of these Bylaws requires same, the singular shall include the plural, the masculine shall include the feminine and the term "person" shall include a corporation or other entity, as well as a natural person.

14.5 Conflicting Provisions. In the case of any conflict between any provisions of the Declaration and these Bylaws, the conflicting provisions of the Declaration shall control. In the case of any conflict between any provisions of the Articles and these Bylaws, or the Declaration, the Articles shall control.

14.6 Fiscal Year. The fiscal year of the Community Association shall be a calendar year unless and until a different fiscal year is adopted by the Community Board at a duly constituted meeting thereof.

14.7 Proof of Membership. If requested by the Community Board, no person shall exercise the rights of membership in the Community Association until satisfactory proof thereof has been furnished to the secretary. Such proof may consist of either a copy of a duly executed and acknowledged grant deed or title insurance policy showing said person to be the owner of an

interest in a Residential Lot entitling him or her to membership. Such deed or policy shall be deemed conclusive in the absence of a conflicting claim based on a later deed or policy.

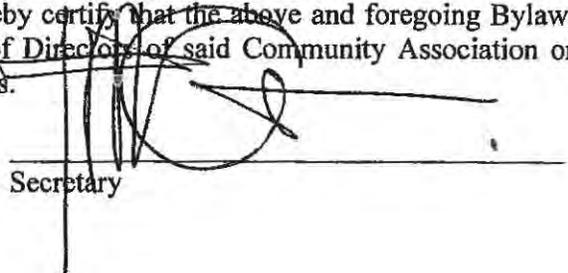
14.8 Property Management Report. Any company hired by the Community Association to serve any management functions shall prepare, on a yearly basis, a report covering such issues, as may be required, from time to time, by the Community Board.

14.9 Reserves. Any amounts collected by or paid to the Community Association in excess of operational needs shall be either (a) set aside as reserves for future financial needs in the manner set forth in the Declaration and deposited into insured interest-bearing accounts or (b) carried over to future assessment periods and applied to reduce future assessments. These sums may include amounts collected by Declarant from Owners through purchase escrows representing capital contribution by such Owners to the Community Association.

CERTIFICATE OF SECRETARY

KNOW ALL MEN BY THESE PRESENTS:

The undersigned, Secretary of the La Costa Oaks Community Association, a California non-profit mutual benefit corporation, does hereby certify that the above and foregoing Bylaws were duly adopted by the Community Board of Directors of said Community Association on , 200__, and that they now constitute said Bylaws.


Secretary