

BYLAWS

STONEGATE BERMUDA DUNES HOMEOWNER ASSOCIATION

If this document contains any restriction based on race, color, religion, sex, gender, gender identity, gender expression, sexual orientation, familial status, marital status, disability, genetic information, national origin, source of income as defined in subdivision (p) of Section 12955, or ancestry, that restriction violates state and federal fair housing laws and is void, and may be removed pursuant to Section 12956.2 of the Government Code. Lawful restrictions under state and federal law on the age of occupants in senior housing or housing for older persons shall not be construed as restrictions based on familial status.

BYLAWS
OF
STONEGATE BERMUDA DUNES HOMEOWNERS ASSOCIATION
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BYLAWS
OF
STONEGATE BERMUDA DUNES HOMEOWNERS ASSOCIATION

ARTICLE I
DEFINITIONS

All terms as used in these Bylaws shall, unless stated otherwise, be defined as set forth in that certain Master Declaration of Covenants, Conditions and Restrictions for Stonegate Bermuda Dunes Homeowners Association, recorded on 6-10-05, as Instrument No. 2005-8463006 of Official Records of Riverside County, California ("Master Declaration") and any amendments thereto. All of the terms and provisions of the Master Declaration and any amendments thereto are incorporated herein by reference.

ARTICLE II
PRINCIPAL OFFICE

The principal office of the Association for the transaction of business is hereby fixed and located within the County of Riverside, State of California. The Board is granted full power and authority to change the principal office from one location to another within the County.

ARTICLE III
MEMBERS

Section 1. Membership. Every person or entity who is an Owner of a Lot shall be a Member of the Association. Membership shall be appurtenant to and may not be separated from ownership of the Lot which gives rise to such membership. Ownership of a Lot or interest therein shall be the sole qualification for membership. A Member may not possess more than one membership in the Association but shall have the votes for each Lot owned as set forth below and in the Master Declaration. Transfer of a Lot shall automatically transfer membership in the Association and all rights of the transferor with respect to the Common Area and any Exclusive Use Common Area and the membership of the transferor shall automatically terminate. The provisions of these Bylaws, which are binding upon all Members, are not exclusive, and Members shall also be subject to the terms and provisions of the Master Declaration, the Articles and Association rules ("Governing Documents" as defined in the Declaration).

Section 2. Voting Rights. The Association shall have two (2) classes of voting membership, as described in the Master Declaration. Class A Members shall be all Owners with the exception of Declarant (until the termination of the Class B membership). Each Class A Member shall be entitled to one (1) vote for each Lot owned. When more than one (1) person holds an ownership interest in any Lot, all such persons shall be Members, and the vote for such Lot shall be exercised as they among themselves determine, but in no event shall more than one (1) vote be cast with respect to any Lot. If one (1) Owner casts the vote attributed to a Lot, the vote shall conclusively bind all the Owners of that Lot. The Class B member shall be the Declarant. The Class B Member shall be entitled to three (3) votes for each Lot owned. The Class B membership shall terminate as provided in the Master Declaration. Voting rights (for either membership class) attributable to ownership of Lots shall not vest until assessments against those Lots have been levied by the Association.

Section 3. Assessments. The Members shall be personally liable for the payment of such assessments as may be fixed and levied by the Board pursuant to the Master Declaration. Should any Member fail to pay his assessments before delinquency, the Association, at the discretion of the Board, shall have the right to suspend the voting rights and easements of use and enjoyment of the Common Area of such Member, subject to the procedural safeguards established under Section 4 of this Article, for any period during which the payment of any such assessments remains delinquent.

Section 4. Association Rules; Fines; Penalties; Enforcement. The Board shall have the power to adopt, amend, and repeal such rules and regulations as it deems reasonable, which may include the establishment of a system of fines and penalties enforceable as a Reimbursement Assessment pursuant to the Master Declaration. Any such disciplinary action by the Board shall satisfy the minimum requirements of Section 7341 of the Corporations Code before a decision to impose disciplinary action is reached with respect to the accused Member. If any Association rule is deemed to be an Operating Rule under Civil Code Section 1357.100, the Association shall comply with the requirements and procedures set forth in Civil Code Section 1357.100, et seq. The rules and regulations shall also provide that no fine or penalty shall be levied for violation of the Governing Documents or Association rules without the following procedural safeguards:

(a) No proceedings under this Section shall be brought against any Member unless the Board has set a meeting at which the charges will be heard and has notified that Member, in writing, delivered by either personal delivery or first-class mail, at least ten (10) days prior to the meeting. The written notification shall contain, at a minimum, the date, time and place of the meeting, the nature of the alleged violation for which the Member may be disciplined, and a statement that the Member has a right to attend and may address the Board at the meeting. The Board shall meet in executive session if requested by the Member before being disciplined;

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

(c) If the Board imposes discipline on a Member, the Board shall provide the Member a written notification of the disciplinary action, specifying the fines or penalties levied,

if any, and the reasons therefor, delivered by either personal delivery or first-class mail within fifteen (15) days following the action;

(d) In the event the Member corrects an alleged violation prior to the hearing date, the Board shall discontinue the proceedings.

If the Association adopts a policy imposing any monetary penalty, including any fee, on any Member for a violation of the Governing Documents (including Association rules), including any monetary penalty relating to the activities of a guest or invitee of a Member, the Board shall adopt and distribute to each Member, by personal delivery or first-class mail, a schedule of the monetary penalties that may be assessed for those violations, which shall be in accordance with authorization for member discipline contained in the Governing Documents. Any such schedule of monetary penalties is an Operating Rule of the Association under Civil Code Section 1357.120(a)(3). If changes are proposed to be made to the original schedule which was adopted and distributed to the Members, it shall constitute a proposed Rule Change (as defined in Article I, Section 24 of the Declaration) under Civil Code Section 1357.130. The Board shall provide written notice to the Members by an applicable method of Authorized Delivery as described in Article I, Section 6 of the Declaration, at least thirty (30) days before making such Rule Change. The Notice shall include the new schedule and a description of the purpose and effect of same. A decision on a proposed Rule Change shall be made at a meeting of the Board, after consideration of any comments made by the Members, and notice of same shall be delivered to the Members by any applicable method of Authorized Delivery as soon as possible, but not more than fifteen (15) days after making the Rule Change.

Notice is not required under Civil Code Section 1357.130 if the Board determines that an immediate Rule Change is necessary to address an imminent threat to public health or safety or imminent risk of substantial loss to the Association. In such event, the Rule Change is effective for one hundred and twenty (120) days, unless the Rule Change provides for a shorter effective period. An emergency Rule Change cannot be readopted pursuant to Civil Code Section 1357.130(d). Notice to the Members, delivered by any applicable method of Authorized Delivery, shall include the text of the emergency Rule Change, a description of the purpose and effect of the Rule Change, and the date that the Rule Change expires.

ARTICLE IV

MEETINGS OF MEMBERS

Section 1. Place of Meetings. All meetings of Members shall be held at the Project or as close thereto as possible, or at such other place within the County as may be fixed by resolution of the Board. Unless unusual conditions exist, meetings of Members shall not be held outside the County.

Section 2. Annual Meetings. Regular meetings of the Members shall be held not less frequently than once each calendar year at a time and place as prescribed in these Bylaws. The first meeting of the Members, whether a regular or special meeting, shall be held within forty-five (45) days after the close of escrow representing the sale of fifty-one percent (51%) of the Lots authorized for sale under the first Public Report for the Project (provided that said first

Public Report authorizes the sale of fifty (50) or more Lots in the Project), or within six (6) months after the sale of the first Lot, whichever occurs first. Each subsequent annual meeting of the Members shall be held during the same month of each year thereafter, at such reasonable hour as may be established by the Board; provided, however, that the Board by resolution may fix a date for the meeting no more than thirty (30) days before or after said date. If the day for the annual meeting of the Members is a legal holiday, the meeting will be held at the same hour on the first day thereafter which is not a legal holiday. Control of the Project shall be turned over to the Association at the first annual meeting.

Section 3. Special Meetings. Special meetings of the Members shall be promptly called by the Board upon either (i) the vote for such a meeting by a majority of a quorum of the Board or, (ii) the receipt of a written request therefor signed by Members representing at least five percent (5%) of the total voting power of the Association. Members of the Association owning five percent (5%) or more of the Separate Interests may also call a special meeting of the Members to reverse a Rule Change, except an emergency Rule Change, if done in accordance with the procedures set forth in Civil Code Section 1357.140.

Section 4. Notice of Meetings. Written notice of meetings, annual or special, shall be given by the Board to each Member entitled to vote, either personally or by sending a copy of the notice by first class mail, postage prepaid, to his address appearing on the books of the Association, or supplied by him to the Association for the purpose of notice or by any other means permitted by law. All such notices shall be sent to each Member entitled thereto not less than ten (10) days nor more than ninety (90) days before each meeting, and shall specify the place, the day and the hour of such meeting, and those matters which the Board, at the time of giving the notice, intends to present for action by the Members. Except as otherwise provided by law, any proper matter may be presented at the meeting for action. Any approval of the Members required under Sections 7222, 7224, 7233, 7812 or 8719 of the California Corporations Code, other than unanimous approval by those entitled to vote, shall be valid only if the general nature of the proposal so approved was stated in the notice of the meeting. When any meeting of Members, either annual or special, is adjourned for thirty (30) days or more, notice of the time and place of the adjourned meeting shall be given as in the case of an original meeting. Except as aforesaid, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting other than by announcement thereof at the meeting at which such adjournment is taken.

Section 5. Conduct of Meetings. All meetings of the membership of the Association shall be conducted in accordance with a recognized system of parliamentary procedure or such parliamentary procedures as the Association may adopt.

Section 6. Quorum. The presence at the meeting, in person or by proxy, of Members entitled to cast one-third (1/3) of the total number of votes which may be cast by the Members shall constitute a quorum for any action, unless a higher percentage is required for any particular action by the Davis-Stirling Common Interest Development Act ("Act") or the Governing Documents.

Section 7. Adjournment for Lack of Quorum. If any meeting cannot be held because a quorum is not present, a majority of the Members present, either in person or by proxy, may

adjourn the meeting but may not transact any other business. Adjournment shall be to a date not less than five (5) days nor more than thirty (30) days from the date the original meeting was called. Except where a greater quorum for voting on particular issues is required by the Act or the Governing Documents, the quorum for an adjourned meeting shall be the presence at the meeting, in person or by proxy, of at least twenty-five percent (25%) of the Members entitled to vote; provided, however, any approval of the Members shall be valid only if the general nature of the proposal so approved was stated in the notice of the meeting. 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 in the manner prescribed for all meetings, annual or special. Except where a greater portion of the voting power is required by the Governing Documents, a majority of the voting power present, in person or by proxy, shall prevail at all meetings.

Section 8. Consent of Absentees. The transaction of any business at any meeting of Members, either annual or special, however called and noticed, shall be as valid as though transacted at a meeting duly held after regular call and notice if a quorum is present either in person or by proxy, and if either before or after the meeting, each of the Members entitled to vote, not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of such meeting, or approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the records of the Association or made a part of the minutes of the meeting.

Section 9. Proxies. Every Member entitled to vote or execute consents shall have the right to do so either in person, or by an agent or agents authorized by a written proxy executed by the Member or his duly authorized agent and filed with the Secretary of the Association. A proxy shall be deemed signed if the Member's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission, or otherwise) by a Member or the Member's attorney-in-fact. A validly executed proxy that does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the Member executing it prior to the vote pursuant thereto, or (ii) written notice of the death or incapacity of the maker of the proxy is received by the Association before the vote pursuant thereto is counted; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy, unless otherwise provided in the proxy, except that the maximum term of any proxy shall not exceed three (3) years from the date of execution. Anything to the contrary notwithstanding, any revocable proxy covering matters requiring a vote of the Members pursuant to Sections 7222, 7224, 7233, 7613(f)(1), 7812, 7911(a)(2), 8012, 8015(a), 8610 or 8719(a) of the California Corporations Code is not valid as to such matters unless it sets forth the general nature of the matter to be voted on.

Section 10. Form of Solicited Proxies or Written Ballots. Any form of proxy or written ballot distributed by any person to the Members shall afford an opportunity to specify a choice between approval and disapproval of each matter or group of related matters intended, at the time the proxy or written ballot is distributed, to be acted upon at the meeting for which it is solicited, except it shall not be mandatory that a candidate for election to the governing body be named in the proxy or written ballot. Any such form of proxy or written ballot also shall provide, subject to reasonable specified conditions, (i) confirmation that, where the Member specifies a choice with respect to any such matter, the vote shall be cast in accordance with that

choice; (ii) the proposed action; (iii) the time by which the ballot must be received by the Association in order to be counted; (iv) the number of responses needed to meet the quorum requirement, and (v) the percentage of approvals necessary to approve the proposed action. A proxy also shall identify the person or persons authorized to exercise the proxy and the length of time it will be valid. In any election of Directors, any form of proxy in which the Directors to be voted upon are named therein as candidates and which is marked by a Member "withhold" or otherwise marked in a manner indicating that the authority to vote for the election of Directors is withheld, shall not be voted either for or against the election of a Director. Failure to comply with this paragraph shall not invalidate any Association action taken, but may be the basis for challenging any proxy at a meeting and the superior court may compel compliance therewith at the suit of any Member.

Section 11. Record Date. The Board may fix a date, not more than sixty (60) nor less than ten (10) days preceding the date of any annual or special meeting of the Members, as a record date for the determination of the Members entitled to notice of and to vote at any such meeting. Only Members of record and in good standing as of the record date shall be entitled to notice of and to vote at any such meeting, notwithstanding any transfer of a membership on the books of the Association after such record date.

Section 12. Action Without Meeting. Any action which may be taken by the vote of the Members at a regular or special meeting, except the election of Directors where cumulative voting is a requirement, may be taken without a meeting if done in compliance with the provisions of Section 7513 of the Corporations Code, which requires, among other things, that the Association distribute a written ballot, in the form described in Section 10 above, to every Member entitled to vote on the matter.

Section 13. Joint Association Meetings/Records. If the Association should consolidate any of its functions with any other association under a joint neighborhood association or similar organization, members of each participating association shall be entitled to attend all meetings of the joint association, other than executive sessions, shall be given reasonable opportunity for participation in those meetings, and shall be entitled to the same access to the joint association's records as they are to the participating association's records.

ARTICLE V

BOARD OF DIRECTORS

Section 1. Powers and Duties. In addition to the powers and duties of the Board described in the Master Declaration, the Articles, or elsewhere in these Bylaws, and subject to limitations contained in these documents and the California Nonprofit Mutual Benefit Corporation Law concerning actions requiring approval or authorization by the Members, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Association shall be controlled by the Board. These powers shall include, without limitation, the following:

(a) To select, appoint and remove all officers, agents and employees of the Association, to prescribe such powers and duties for them as may be consistent with law and the Governing Documents, to fix their compensation and to require from them security for faithful service when deemed advisable by the Board.

(b) To conduct, manage and control the affairs and business of the Association, and to enforce such rules and regulations therefor consistent with law and the Governing Documents, as the Board may deem necessary or advisable.

(c) To maintain the Project and the Common Area, and, if applicable, the Association Maintenance Area, in the manner described in the Master Declaration, but subject to the limitations on the power of the Board specifically described therein and in these Bylaws.

(d) Upon dissolution of the Association, to distribute Association assets according to Corporations Code Sections 8713-8720, as amended.

Section 2. Number and Qualifications. Prior to the first annual meeting of the Members, the Board shall be composed of one (1) to four (4) Members, as selected by the Incorporator of the Corporation. From and after the first annual meeting of the Members, the number of Directors of the Association shall be five (5) until changed by a duly adopted amendment to this Section. In no event shall any amendment decrease the number of Directors after the first annual meeting of Members below five (5). As long as any Class B memberships are outstanding, a person may serve as a Director without being a Member.

Section 3. Election and Term. At the first annual meeting of the Association, the Members shall elect Directors to fill all positions on the Board. The original five (5) Directors so elected shall, by drawing lots, designate that three (3) of the Directors so elected shall serve for a term of one (1) year, while the remaining two (2) Directors shall serve for two (2) years. At each annual meeting thereafter, the Members shall elect three (3) or two (2) Directors respectively, for a term of two (2) years, to succeed those Directors whose terms have expired.

Section 4. Nomination. Nominations for the office of Director shall be made by a Nominating Committee consisting of a chairman, who shall be a member of the Board, and two (2) or more Members of the Association. All members of the Nominating Committee shall be appointed by the Board prior to each annual meeting of the Members, to serve from the close of such annual meeting until the close of the next annual meeting. The Nominating Committee shall make as many nominations for election to the Board as it shall in its discretion determine, but not less than the number of vacancies that are to be filled. Notice to the Members of the meeting shall include the names of all those who are nominees at the time the notice is sent. Nominations may also be made by the Members from the floor at the annual meeting or such other meeting at which Directors are to be elected. Persons nominated may include Members or nonmembers so long as any Class B memberships remain outstanding. All candidates shall have reasonable opportunity to communicate their qualifications to Members and to solicit votes.

Section 5. Election Procedures. Election to the Board shall be by secret written ballot. Subject to the procedural requirements of Corporations Code 7615(b), every Member entitled to vote at any election of Directors in which more than two (2) Directors are to be

elected, shall have the right to accumulate his votes and give one candidate a number of votes equal to the number of Directors to be elected, multiplied by the number of votes to which he is entitled, or to distribute his votes on the same principle among as many candidates as he desires. The nominees receiving the largest number of votes, up to the number of vacancies to be filled, shall be elected as Directors. So long as there are Class B memberships remaining in the Association, not less than twenty percent (20%) of the members of the Board shall be elected solely by the vote of Class A members.

Section 6. Removal. At any properly noticed annual or special meeting of the Members, the entire Board or any individual Director may be removed from office. If the Association has fewer than fifty (50) members, such removal must be approved by a majority of all Members as defined by Corporations Code Section 5033. If the Association has fifty (50) or more Members, removal must be approved by the Members as defined in Corporations Code Section 5034.

Unless the entire Board is removed from office, no individual Director shall be removed prior to the expiration of his term of office if the votes cast against removal would be sufficient to elect the Director if voted cumulatively at an election at which the same total number of votes were cast and the entire number of Directors authorized at the time of the most recent election of such Director were then being elected. In the event that any or all Directors are so removed, new Directors may be elected at the same meeting. A Director who has been elected to office solely by the votes of Class A members may be removed from office prior to the expiration of his term only by the vote of at least a simple majority of the voting power residing in Class A Members.

Section 7. Vacancies. A vacancy shall be deemed to exist in the case of the death, resignation or removal of any Director. Any vacancy created by the death or resignation of a Director may be filled by a vote of a majority of the remaining Directors, though less than a quorum, and each Director so elected shall serve for the unexpired term of his predecessor; provided, however, that so long as there are Class B memberships remaining in the Association, any vacancy created by the death or resignation of a Director elected solely by Class A Members pursuant to Section 5 of this Article may be filled solely by an election of Class A members. Any vacancy created by the removal of a Director shall be filled by an election of the Members of the Association according to the provisions of Section 5 of this Article.

If the authorized number of Directors is increased as provided in these Bylaws, but additional Directors are not elected at the meeting at which such increase is authorized, or at an adjournment thereof, or in case the Members at any time fail to elect the full number of authorized Directors, a vacancy or vacancies shall be deemed to exist. The Members may at any time elect Directors to fill any vacancy not filled by the Directors, and may elect the additional Directors at the meeting at which an amendment of the Bylaws is voted authorizing an increase in the number of Directors. No reduction of the number of Directors shall have the effect of removing any Director prior to the expiration of his term of office.

Section 8. Regular Meetings. Regular meetings of the Board shall be held monthly at such place and hour within the Project as may be fixed by resolution of the Board. Notice of time and place of such meetings, except for emergency meetings, shall be given to the Members and communicated to Directors, not less than four (4) days prior to the meeting date; provided,

however, that notice of a meeting need not be given to any Director who has signed a waiver of notice or written consent to the holding of the meeting. Notice of meetings of the Board may be given to Members by posting the notice in a prominent place or places within the Common Area, and by mail to any Owner who had requested notification of board meetings by mail, at the address requested by the Owner. Notice may also be given, by mail or delivery of the notice to each Unit in the Project, or by newsletter or similar means of communication.

An emergency meeting of the Board may be called by the President, or by any two members of the Board other than the President, if there are circumstances that could not have been reasonably foreseen that require immediate attention and possible action by the Board and that of necessity make it impractical to provide prior notice as required in this Section. A record of the emergency meeting shall be filed with the minutes of the proceedings of the Board, and an explanation of any emergency action so taken shall be delivered to the Members in the same manner required for delivery of notice of a regular meeting of the Board, within three (3) days after the emergency meeting.

Section 9. Special Meetings. Special meetings of the Board may be called by written notice signed by the President of the Association, or by any two (2) Directors other than the President, after not less than four (4) days' notice to each Director and to the Members. The notice shall specify the time and place of the meeting and the nature of any special business to be considered. The notice shall be sent to all Directors and posted or communicated to the Members in a manner prescribed for notice of regular meetings not less than four (4) days prior to the scheduled time of the meeting; provided, however, such notice need not be given to any Director who signs a waiver of notice or a written consent to holding of the meeting; and further provided that such advance notice provisions do not apply in the case of an emergency meeting allowed under Section 8 above.

Section 10. Attendance at Board Meetings; Executive Sessions. All meetings of the Board, except executive sessions, shall be open to all Members of the Association. The Board shall permit any Member to speak at any meeting of the Association or the Board, except for meetings of the Board held in executive session. A reasonable time limit for all Members to speak to the Board or before a meeting of the Association shall be established by the Board. The Board may, by the vote of a majority of a quorum, adjourn a regular or special meeting and reconvene in executive session to consider litigation, matters relating to the formation of contracts with third parties, member discipline, personnel matters, or to meet with a Member, upon the Member's request, regarding the Member's payment of assessments, as specified in Civil Code Section 1367.1. Executive sessions shall not be open to the general membership, but the nature of any and all business to be considered in executive session shall first be announced in open session. Any matter discussed in executive session shall be generally noted in the minutes of the immediately following meeting that is open to the entire membership. In any matter relating to the discipline of a Member, the Board shall meet in executive session if requested by the Member who may be subject to a fine, penalty, or other form of discipline, and the Member shall be entitled to attend the executive session. For purposes of this Section, and Section 8 and Section 9 above which require that notice of Board meetings be given to the Members, a "meeting" of the Board shall include any congregation of a majority of the Directors at the same time and place to hear, discuss or deliberate upon any item of Association business, except those matters that may be discussed in executive session.

Section 11. Quorum. A majority of the number of Directors as fixed by these Bylaws shall constitute a quorum for the transaction of business. Every act or decision made or done by a majority of the Directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board.

Section 12. Organizational Meeting. Immediately following each annual meeting of the Members, the 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 waived.

Section 13. Adjournment. A quorum of the Directors may adjourn any Board meeting to meet again at a stated day and hour; provided, however, that in the absence of a quorum, the majority of the Directors present at any Board meeting, either regular or special, may adjourn from time to time until the time fixed for the next regular meeting of the Board.

Section 14. Action Without Meeting. Any action required or permitted to be taken by the Board may be taken without a meeting if all Directors consent in writing to such action. Such written consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of the Directors, and an explanation of any action so taken shall be delivered to the Members in the same manner required for notice of a regular meeting of the Board, within three (3) days after the written consents of all Directors have been obtained.

Section 15. Indemnification of Directors, Officers and Employees. The Association may, to the maximum extent permitted by Section 7237 of the Corporations Code, reimburse, indemnify and hold harmless each Director, Officer and employee of the Association and each person who, at the request of the Association acts as a director, officer or employee of any other corporation in which the Association has an interest, from and against all loss, cost, liability and expense which may be imposed upon or reasonably incurred by him, including reasonable settlement payments, in connection with any claim, action, suit or proceeding or threat thereof, made or instituted, in which he may be involved or be made a party by reason of his being or having been a Director, Officer or employee of the Association or such other corporation, or by reason of any action alleged to have been taken or omitted by him in such capacity. The right of indemnification provided herein, shall inure to each person referred to herein, whether or not the claim asserted against him is based on matters which arose in whole or in part prior to the adoption of this Section and in the event of his death shall extend to his legal representatives.

Section 16. Volunteer Officers and Directors/Limitation of Liability. In accordance with California Civil Code Section 1365.7, the following provisions shall apply with regard to the volunteer Officers and Directors of the Association:

(a) A volunteer Officer or volunteer Director of the Association shall not be personally liable in excess of the coverage of insurance specified in paragraph (iv) below to any person who suffers injury, including, but not limited to, bodily injury, emotional distress, wrongful death, or property damage or loss as a result of the tortious act or omission of the volunteer Officer or volunteer Director if all of the following criteria are met:

- (i) The act or omission was performed within the scope of the Officer's or Director's Association duties;
- (ii) The act or omission was performed in good faith;
- (iii) The act or omission was not willful, wanton, or grossly negligent;
- (iv) The Association maintained and had in effect at the time the act or omission occurred, and at the time a claim is made, one or more policies of insurance which shall include coverage for (a) general liability of the Association, and (b) individual liability of Officers and Directors of the Association for negligent acts or omissions in that capacity; provided, that both types of coverage are in the following minimum amount:
 - (A) At least Five Hundred Thousand Dollars (\$500,000.00) per occurrence if the Project consists of one hundred (100) or fewer Separate Interests.
 - (B) At least One Million Dollars (\$1,000,000.00) per occurrence if the Project consists of more than one hundred (100) Separate Interests.

(b) The payment of actual expenses incurred by a Director or Officer in the execution of the duties of that position does not affect the Director's or Officer's status as a volunteer within the meaning of this Section.

(c) An Officer or Director who at the time of the act or omission was a declarant, as defined in subdivision (g) of California Civil Code Section 1351, or who received either direct or indirect compensation as an employee from the Declarant, or from a financial institution that purchased a Separate Interest at a judicial or nonjudicial foreclosure of a mortgage or deed of trust on real property, is not a volunteer for the purposes of this Section.

(d) Nothing in this Section shall be construed to limit the liability of the Association for its negligent act or omission or for any negligent act or omission of an Officer or Director of the Association.

(e) This Section shall only apply to a volunteer Officer or Director who is a tenant of a Separate Interest in the Project or is an Owner of no more than two Separate Interests in the Project.

(f) For purposes of paragraph (i) of subsection (a) above, the scope of the Officer's or Director's Association duties shall include, but shall not be limited to, both of the following decisions:

- (i) Whether to conduct an investigation of the Project for latent deficiencies prior to the expiration of the applicable statute of limitations.

- (ii) Whether to commence a civil action against the builder for defects in design or construction.

Section 17. Fees and Compensation. No Director or Officer shall receive any salary for his services as a Director or Officer. Nothing herein shall be construed to preclude any Director or Officer from servicing the Association as agent, counsel, or in any capacity other than as Director or Officer, and receiving compensation for such services. Directors may also be reimbursed for any actual expenses incurred in the performance of duties as Directors.

Section 18. Records. The Board shall cause to be kept a complete record of all its acts and corporate affairs and to present a statement thereof to the Members at annual meetings of Members or at any special meeting where such statement is requested in writing by one-fourth (1/4) of the Members entitled to vote thereat.

ARTICLE VI

OFFICERS AND THEIR DUTIES

Section 1. Officers. The Officers of the Association shall be a President and Vice President, who shall at all times be Directors, a Secretary and a Treasurer (who may, but need not be Directors), and such other officers as the Board may from time to time by resolution establish.

Section 2. Election. The Officers of the Association shall be elected by the Board at the organizational meeting of each new Board and shall hold office at the pleasure of the Board.

Section 3. Term. The Officers of the Association, other than interim officers, shall be elected annually by the Board and each shall hold office for one (1) year unless he sooner resigns, is removed, or is otherwise disqualified to serve.

Section 4. Special Appointments. The Board may elect such interim or other Officers as the affairs of the Association may require, each of whom shall hold office for such period, have such authority, and perform such duties as the Board may determine.

Section 5. Resignation and Removal. Any Officer may be removed from office with or without cause by the Board. Any Officer may resign at any time by giving written notice to the Board, 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.

Section 6. Vacancies. A vacancy in any office may be filled in the manner prescribed for regular election by the Board. The person elected to such vacancy shall serve for the remainder of the term of the Officer he replaces.

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

Section 8. Duties. The duties of the Officers shall be as follows:

(a) President. The President shall preside at all meetings of the Board, shall be the chief executive officer of the Association and, subject to the control of the Board and provisions of the Master Declaration, shall have general supervision, direction and control of the business and affairs of the Association. The President shall sign all leases, mortgages, deeds and other written instruments and shall co-sign all checks and promissory notes of the Association. The President shall be an ex officio member of any standing committees and shall have the general powers and duties of management usually vested in the office of the president of a corporation, and such other powers and duties as may be prescribed by the Board or these Bylaws.

(b) Vice President. The Vice President shall act in the place and stead of the President in the event of his absence, inability or refusal to act, and shall exercise and discharge such other duties as may be required of him by the Board.

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

(d) Treasurer. The Treasurer shall keep and maintain adequate and correct accounts of the properties and business transactions of the Association. Books of account shall be open to inspection by any Director or Member at all reasonable times as described below. The Treasurer shall receive and deposit in appropriate bank accounts all monies of the Association and shall disburse such funds as directed by the Board, shall co-sign all checks and promissory notes of the Association, shall render to the President and Directors whenever they request it an account of all of his transactions as Treasurer and of the financial condition of the Association, and shall have such other powers and perform such other duties as may be prescribed by the Board or these Bylaws.

ARTICLE VII

BOOKS, RECORDS AND FINANCIAL REPORTS

Section 1. Declarant's Delivery of Documents to the Association in the Initial Phase of the Project. Commencing not later than ninety (90) days after the close of escrow of the first Lot in the initial Phase of the Project, copies of the documents listed below, as soon as readily available, shall be delivered by Declarant to the Board at the office of the Association, or at such other place as the Board may prescribe. The obligation to deliver the documents listed below

shall apply to any documents obtained by Declarant at any time, provided, however, that such obligation shall terminate upon the earlier of (i) the conveyance of the last Lot in the Project, or (ii) three (3) years after the expiration of the most recent public report on the Project:

- (a) The recorded subdivision map or maps for the Project;
- (b) The recorded condominium plan, if any, and all amendments thereto;
- (c) The deeds and easements executed by Declarant conveying the Common Area or other interest to the Association, to the extent applicable;
- (d) The recorded Declaration of Covenants, Conditions and Restrictions for the Project, including all amendments and annexations thereto;
- (e) The Association's filed Articles of Incorporation, if any, and all amendments thereto;
- (f) The Association's Bylaws, and any amendments thereto;
- (g) All architectural guidelines and all other rules regulating the use of an Owner's Separate Interest in the Project, or the use of the Common Area, which have been promulgated by the Association;
- (h) The plans approved by the local agency or county where the Project is located for the construction or improvement of facilities that the Association is obligated to repair; provided, however, that the plans need not be as-built plans and that the plans may bear appropriate restrictions on their commercial exploitation or use and may contain appropriate disclaimers regarding their accuracy;
- (i) All notice of completion certificates issued for the Common Area improvements (other than residential structures);
- (j) Any bond or other security device in which the Association is the beneficiary;
- (k) Any written warranty being transferred to the Association for Common Area equipment, fixtures or improvements;
- (l) Any insurance policy procured for the benefit of the Association, the Board or the Common Area;
- (m) Any lease or contract to which the Association is a party;
- (n) The membership register, including mailing addresses and telephone numbers, books of account and minutes of meetings of the Members, of the Board, and of any committees of the Board;

(o) Any instrument referred to in California Business and Professions Code Section 11018.6(d) but not described above, which establishes or defines the common, mutual or reciprocal rights or responsibilities of the Members.

Section 2. Declarant's Delivery of Documents to the Association in Subsequent Phases of the Project. Commencing not later than ninety (90) days after the annexation of additional Phases of the Project, copies of those documents listed in Section 1 above which are applicable to the particular annexed Phase, shall, as soon as readily obtainable, be delivered by Declarant to the Board at the office of the Association, or at such other place as the Board shall prescribe. The obligation to deliver the documents listed above in Section 1 shall apply to any documents obtained by the Declarant no matter when obtained, provided, however, such obligation shall terminate upon the earlier of (a) the conveyance of the last Lot in the Project covered by a public report, or (b) three years after the expiration of the most recent public report on the Project.

Section 3. Inspection of Corporate Records. Current copies of the Association records including, without limitation, the Governing Documents and the Association rules (including Operating Rules, as defined in the Declaration), the membership register, including mailing addresses and telephone numbers, accounting books and records, financial statements, and minutes of meetings of the Members, Board meetings and meetings of committees of the Board, shall be available for inspection and copying by any Member or his duly appointed representative at any reasonable time and for a purpose reasonably related to his interest as a Member, at the office of the Association or such other place that the requesting Member and the Association agree upon. The Board may establish reasonable rules concerning the notice to be given to the custodian of records by the Member desiring to inspect them, the hours and days of the week when such an inspection may be made, and the payment of cost of reproducing copies of documents requested by a Member.

The minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes, of any meeting of the Board, other than an executive session, shall be available to Members within thirty (30) days following the meeting to which they pertain. The minutes, proposed minutes, or summary minutes shall be distributed to any Member upon request and upon reimbursement of the Association's costs for making that distribution. Members shall be notified in writing at the time that the Budget is distributed as required by Section 7 of this Article, or at the time of any general mailing to the entire membership of the Association, of their right to have copies of the minutes of meetings of the Board, and how and where those minutes may be obtained.

If the Association and the requesting Member cannot agree upon a place for inspection and copying, or if the requesting Member submits a written request directly to the Association for copies, the Association may satisfy the requirement to make the accounting books and records and minutes of proceedings available for inspection and copying by mailing copies of the requested records to the Member by first-class mail within ten (10) days of receiving the Member's request. The Association may bill the requesting Member for its actual, reasonable costs for copying and mailing requested documents and shall inform the Member of the amount of the copying and mailing costs before sending the requested documents.

A Member of the Association may bring an action to enforce the Member's right to inspect and copy the accounting books and records and the minutes of proceedings of the Association. If a court finds that the Association unreasonably withheld access to the accounting books and records and the minutes of proceedings, the court shall award the Member reasonable costs and expenses, including reasonable attorney's fees, and may assess a civil penalty of up to Five Hundred Dollars (\$500.00) for each violation.

In accordance with Civil Code Section 1365.2(c), the Association may withhold or redact information from the accounting books and records and the minutes of proceedings if the release of the information is reasonably likely to lead to identity theft or fraud, or if the information is privileged under law. Except as provided by the attorney-client privilege, the Association may not withhold or redact information concerning the compensation paid to employees, vendors, or contractors. Compensation information for individual employees, if any, shall be set forth by job classification or title, and not by the employee's name, social security number, or other personal information.

In accordance with Civil Code Section 1365.2(d), the accounting books and records and the minutes of proceedings of the Association, and any information from them, may not be sold, used for a commercial purpose, or used for any other purpose not reasonable related to a Member's interest as a member. The Association may bring an action against any person who violates this Section for injunctive relief and for actual damages to the Association caused by the violation, and to damages for misuse of the information or injunctive relief to stop the misuse of this information. The Association is entitled to recover reasonable costs and expenses, including reasonable attorney's fees, in a successful action to enforce its right under Civil Code Section 1365.2(d).

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

Section 4. Inspection of Bylaws. The Association shall keep in its principal office the original or a copy of the Bylaws as amended, certified by the Secretary, which shall be open to inspection by all of the Members at all reasonable times.

Section 5. Checks, Drafts, etc. All checks, drafts, or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the Association, shall be signed or endorsed by the joint signatures of the President and Treasurer or in such other more stringent manner as shall be determined by resolution of the Board. Withdrawal of funds from the Association's reserve account will be governed by the provisions of Section 9 below.

Section 6. Contracts. Except as otherwise provided in these Bylaws or the Declaration, the Board may authorize any Officer(s) or agent(s) to enter into any contract or execute any instrument in the name of and on behalf of the Association, and such authority may be general or confined to specific instances. Unless so authorized by the Board, no Officer,

agent or employee shall have any power or authority to bind the Association by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

The Board shall not enter into any contracts for goods or services with a duration greater than one (1) year without the vote or written consent of a majority of each class of Members so long as the two class voting structure remains in effect, and following termination of the two class voting structure, a majority of the total voting power of the Association as well as a majority of the total voting power of Members other than Declarant, with the following exceptions: (i) a management contract, the terms of which have been approved by the Federal Housing Administration or United States Department of Veterans Affairs; (ii) a contract with a public utility company if the rates charged for the materials or services are regulated by the Public Utilities Commission; provided, however, that the term of the contract shall not exceed the shortest term for which the supplier will contract at the regulated rate; (iii) prepaid casualty and/or liability insurance policies of not to exceed three (3) years' duration, provided that the policy permits short rate cancellation by the insured; (iv) lease agreements for laundry room fixtures and equipment of not to exceed five (5) years' duration; provided that the lessor under the agreement is not an entity in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more; (v) agreements for cable television services and equipment or satellite dish television services and equipment of not to exceed five (5) years duration, provided that the supplier is not an entity in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more; (vi) agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services not to exceed five (5) years' duration, provided that the supplier is not an entity in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more, or (vii) a contract for a term not to exceed three (3) years that is terminable by the Association after no longer than one (1) year without cause, penalty, or other obligation upon ninety (90) days' written notice of termination to the other party. Any agreement for professional management of the Association or for services of the Declarant must provide that the management contract may be terminated by either party without cause or payment of a termination fee upon ninety (90) days' written notice and the term of such contract shall not exceed one (1) year. Prior to entering into any management contract, the Board shall require compliance with California Civil Code Section 1363.1, and any management contract shall require that Association funds received by the Managing Agent shall be handled in accordance with California Civil Code Section 1363.2.

Section 7. Budgets, Financial Statements and Insurance Summaries. The Board shall cause budgets, financial statements and insurance summaries for the Association to be prepared and sent to each Member as follows:

(a) Budget. A pro forma operating budget ("Budget") for each fiscal year shall be prepared and distributed to each Member not less than thirty (30) days nor more than ninety (90) days prior to the beginning of that fiscal year. This Budget, or any summary, supplementation or modification of the Budget, shall be accompanied by the form entitled "Assessment and Reserve Funding Disclosure Summary" as required by Civil Code Section 1365.2.5, and the Budget shall contain at least the following information:

- (i) A statement of the estimated revenue and expenses of the Association, prepared on an accrual basis;

- (ii) A summary of the Association's reserves, based only on assets held in cash or cash equivalents and the most recent review or study conducted pursuant to California Civil Code Section 1365.5 and described in Section 8 below, shall be printed in boldface type and include all of the following:
 - (A) The current estimated replacement cost, estimated remaining life, and estimated useful life of each major component of the Common Area which the Association is obligated to maintain;
 - (B) As of the end of the fiscal year for which the study is prepared:
 - (1) The current estimate of the amount of cash reserves necessary to repair, replace, restore or maintain major components of the Common Area ("Estimate");
 - (2) The current amount of accumulated cash reserves actually set aside to repair, replace, restore, or maintain major components of the Common Area ("Cash Reserves"), and, if applicable,
 - (3) the amount of funds received from either a compensatory damage award or settlement to the Association from any person or entity for injuries to property, real or personal, arising out of any construction or design defects, and the expenditure or disposition of funds, including the amounts expended for the direct and indirect costs of repair of construction or design defects. These amounts shall be reported at the end of the fiscal year for which the study is prepared as separate line items under cash reserves pursuant to clause (2) above. In lieu of complying with the requirements set forth in this clause, the Association, if obligated to issue a review of their financial statement pursuant to Civil Code Section 1365 (b) and Section 7 (c) (v) below, may include in the review a statement containing all of the information required by this clause.
 - (C) The percentage that the total sum in "Cash Reserves" is of the total "Estimate" (as those terms are defined above in subparagraph (B)).

- (iii) A statement as to whether the Board has determined or anticipates that the levy of one or more Special Assessments will be required to repair, replace or restore any major component of the Common Area or to provide adequate reserves therefor. If so, the statement shall also set out the estimated amount, commencement date, and the duration of the Assessment.
- (iv) A statement describing the mechanism or mechanisms by which the Board will fund reserves to repair or replace major components, including assessments, borrowing, use of other assets, deferral of selected replacement or repairs, or alternative mechanisms.
- (v) A general statement describing the procedures used by the Board for the calculation and establishment of reserves to defray the costs of the future repair, replacement or additions to major components of the Common Areas and Improvements which the Association is obligated to maintain. The report shall include, but need not be limited to, reserve calculations made using the formula described in paragraph (4) of subdivision (b) of Civil Code Section 1365.2.5, and may not assume a rate of return on cash reserves in excess of two percent (2%) above the rediscount rate published by the Federal Reserve Bank of San Francisco at the time the calculation was made.

In lieu of the distribution of the Budget required by this Section 7(a), the Board may elect to distribute a summary of the Budget to all its Members with a written notice that the Budget is available at the business office of the Association or at another suitable location within the boundaries of the Project and that copies will be provided upon request and at the expense of the Association. This written notice that is distributed to each of the Members with a summary of the Budget shall be in at least 10-point boldface type on the front page of the summary of the Budget.

Each Budget or summary of the Budget distributed to the Members shall be accompanied by an "Assessment and Reserve Funding Disclosure Summary" in the form set forth in Civil Code Section 1365.2.5.

If any Member requests that a copy of the Budget be mailed to the Member, the Association shall provide a copy to the Member by first-class United States Mail at the expense of the Association and delivered within five (5) days.

(b) First Financial Report. A balance sheet as of an accounting date which shall be the last day of the month closest in time to six (6) months from the date of the first conveyance of a Lot and an operating statement for the period from the date of the first closing to said accounting date shall be distributed to each Member not less than sixty (60) days after the accounting date. This operating statement for the first six (6) months' accounting period shall

include a schedule of assessments received and receivable itemized for each Lot within the Project and by the name of the person or entity assessed therefor.

(c) Annual Financial Report. An annual report consisting of the following must be distributed to each Member within one hundred twenty (120) days after the close of the fiscal year:

- (i) A balance sheet as of the last day of the fiscal year;
- (ii) An operating (income) statement for the fiscal year;
- (iii) A statement of changes in financial position for the fiscal year;
- (iv) Any information required to be reported under Section 8322 of the Corporations Code;
- (v) For any fiscal year in which the Association's gross income exceeds \$75,000.00, a copy of a review of the annual report prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy;
- (vi) If such annual report is not prepared by an independent accountant as may be required by subparagraph (v) above, it shall be accompanied by the certificate of an authorized officer of the Association that the statements contained therein were prepared without independent audit or review from the books and records of the Association.

(d) Statement of Association's Policies and Practices for Enforcement of Lien Rights and Other Remedies. The Board shall also distribute annually, not less than thirty (30) nor more than ninety (90) days immediately preceding the beginning of the fiscal year, a statement describing the Association's policies and practices in enforcing its lien rights and other remedies against Owners for defaults in the payment of Regular and Special Assessments. This statement shall also include the Notices regarding Assessments and Nonjudicial Foreclosure, Payments, and Meetings and Payment Plans, as prescribed by California Civil Code Section 1365.1.

(e) Insurance Summary. The Association shall, upon issuance or renewal of insurance, but no less than annually, provide the Owners with a summary of the Association's property, general liability, fidelity, earthquake and flood insurance policies, and any other policies carried by the Association ("Insurance Summary") which shall be distributed not less than thirty (30) nor more than ninety (90) days preceding the beginning of the Association's fiscal year, that includes all of the following information about each policy:

- (i) the name of the insurer;
- (ii) the type of insurance;

- (iii) the policy limits of the insurance; and
- (iv) the amount of deductibles, if any.

To the extent that the information to be disclosed in the Insurance Summary is specified in the insurance policy declaration page, the Association may meet its obligation to disclose that information by making copies of that page and distributing it to all the Members.

The Insurance Summary shall contain, in at least 10-point boldface type, the following statement:

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

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

Section 8. Reconciliations and Review.

(a) Pursuant to California Civil Code Section 1365.5(a), the Board shall do the following not less frequently than quarterly:

- (i) Cause a current reconciliation of the Association’s operating accounts to be made and review the same.
- (ii) Cause a current reconciliation of the Association’s reserve accounts to be made and review the same.
- (iii) Review the current year’s actual reserve revenues and expenses compared to the current year’s budget.

- (iv) Review the most current account statements prepared by the financial institution where the Association has its operating and reserve accounts.
- (v) Review an income and expense statement for the Association's operating and reserve accounts.

(b) Pursuant to California Civil Code Section 1365.5(e), the Board shall, at least once every three (3) years, cause to be conducted a reasonably competent and diligent visual inspection of the accessible areas of the major components which the Association is obligated to repair, replace, restore or maintain as part of a study of the reserve account requirements of the Project if the current replacement value of the major components is equal to or greater than one-half of the gross budget of the Association which excludes the Association's reserve account for that period. The Board shall review this study, or cause it to be reviewed, annually and shall consider and implement necessary adjustments to the Board's analysis of the reserve account requirements as a result of that review.

The study required by this Section shall at a minimum include:

- (i) Identification of the major components which the Association is obligated to repair, replace, restore or maintain which, as of the date of the study, have a remaining useful life of less than thirty (30) years.
- (ii) Identification of the probable remaining useful life of the components identified in subparagraph (i) of this paragraph (b) as of the date of the study.
- (iii) An estimate of the cost of repair, replacement, restoration, or maintenance of the components identified in subparagraph (i) of this paragraph (b).
- (iv) An estimate of the total annual contribution necessary to defray the cost to repair, replace, restore, or maintain the components identified in subparagraph (i) of this paragraph (b) during and at the end of their useful life, after subtracting total reserve funds as of the date of the study.

Section 9. Withdrawal of Reserves. Withdrawal of funds from the Association's reserve account(s) shall require the signatures of either:

- (a) Two members of the Board; or
- (b) One member of the Board and an Officer of the Association who is not also a member of the Board.

The 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 which the Association is obligated to repair, restore, replace, or maintain and for which the reserve fund was established. However, the Board may authorize the temporary transfer of money from a reserve fund to the Association's general operating fund to meet short-term cash-flow requirements or other expenses, if the Board has provided notice of the intent to consider the transfer in a notice of meeting, which shall be provided as specified in Civil Code Section 1363.05. The notice shall include the reasons the transfer is needed, some of the options for repayment, and whether a Special Assessment may be considered. If the Board authorizes the transfer, the Board shall issue a written finding, recorded in the Board's minutes, explaining the reasons that the transfer is needed, and describing when and how the moneys will be repaid to the reserve fund. The transferred funds shall be restored to the reserve fund within one (1) year following the date of the initial transfer, except that the Board may, after giving the same notice required for considering a transfer, and upon making a finding supported by documentation that a delay would be in the best interests of the Project, temporarily delay such restoration. The Board shall exercise prudent fiscal management in maintaining the integrity of 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. Any such Special Assessment is subject to the limitation imposed by Civil Code Section 1366. The Board may, at its discretion, extend the date the payment on the Special Assessment is due. Any extension shall not prevent the Board from pursuing any legal remedy to enforce the collection of an unpaid Special Assessment.

When the decision is made to use reserve funds or to temporarily transfer moneys from the reserve fund to pay for litigation, the Association shall notify the Members of that decision, and of the availability of an accounting of those expenses, in the next available mailing to all Members pursuant to Section 5016 of the Corporations Code. The Association shall make an accounting of expenses related to the litigation on at least a quarterly basis. The accounting shall be made available for inspection by the Members at the Association's office.

For all purposes herein, "reserve accounts" shall mean moneys which the Board has identified for use to defray the costs of the future repair or replacement of, or additions to, those major components of the Common Area which the Association is obligated to maintain.

For all purposes herein, "reserve account requirements" means the estimated funds which the Board has determined are required to be available at a specified point in time to repair, replace, or restore those major components of the Common Area which the Association is obligated to maintain.

Section 10. Future Statutory Changes in Reserve Account Requirements. The provisions of Section 8 and Section 9 above incorporate the existing statutory requirements of California Civil Code Section 1365.5. If said Civil Code Section is amended, Section 8 and Section 9 above shall be deemed amended in the same manner without the necessity of formally amending these Bylaws.

Section 11. Fiscal Year. The fiscal year of the Association shall be as established by resolution of the Board at its first meeting.

Section 12. Information to be Submitted to Secretary of State. The Association shall submit annual statements to the Secretary of State pursuant to Corporations Code Section 1502 and Civil Code Section 1363.6. Such statements to be submitted on forms and subject to fees as prescribed by the Secretary of State,

ARTICLE VIII

AMENDMENT/CONSTRUCTION

Section 1. Amendment Procedure. Prior to close of escrow on the sale of the first Lot to an Owner, Declarant may amend these Bylaws (provided any amendment constituting a material change shall require approval by the California Department of Real Estate). After close of escrow on the sale of the first Lot to an Owner, these Bylaws may be adopted, amended or repealed only by the vote or written assent of both (i) Members entitled to exercise a majority of the voting power of the Association, and (ii) a majority of the total possible votes of Class A Members. If the two-class voting structure is still in effect, these Bylaws may not be amended without the vote or written assent of a majority of the voting power of each class of membership. Notwithstanding the foregoing, the percentage of a quorum or of the voting power of the Association or of Members other than Declarant necessary to amend a specific clause or provision of these Bylaws shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause.

Section 2. Record of Amendments. Whenever an amendment or new Bylaw is adopted it shall be placed in the book of Bylaws in the appropriate place. If any Bylaw is repealed, the fact of repeal, with the date of the meeting at which the repeal was enacted or written assent was filed, shall be stated in said book.

Section 3. Construction. In the case of any conflict between the Articles and these Bylaws, the Articles shall control; and in the case of a conflict between the Master Declaration and the Bylaws, the Master Declaration shall control. Wherever the context of these Bylaws so requires, the singular shall include the plural, and the masculine shall include the feminine.

CERTIFICATION

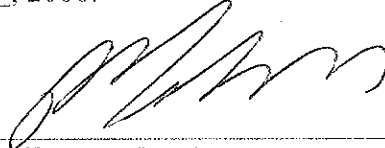
I, the undersigned, do hereby certify:

That I am the sole Incorporator of STONEGATE BERMUDA DUNES HOMEOWNERS ASSOCIATION, a California nonprofit corporation.

That the foregoing Bylaws constitute the original Bylaws of said Association and are adopted by me on behalf of the Association pursuant to Section 7134 of the California Corporations Code.

That the foregoing Bylaws will be presented to the Board of Directors of the Association at its organizational meeting, at which time adoption of the Bylaws which is hereby certified will be ratified by the Board.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Association this 27 day of March, 2006.



Geoffrey McComic

(SEAL)

CERTIFICATION

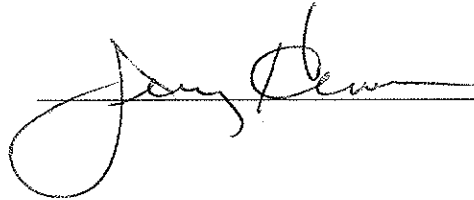
I, the undersigned, do hereby certify:

That I am the Secretary of STONEGATE BERMUDA DUNES HOMEOWNERS ASSOCIATION, a California nonprofit corporation.

That the foregoing Bylaws constitute the original Bylaws of said Association as previously adopted by the Incorporator on 3-27, 2006.

That adoption of the foregoing Bylaws by the Incorporator was ratified at a meeting of the Board of Directors of the Association held on the 27 day of March, 2006.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Association this 27 day of March, 2006.



(SEAL)

CERTIFICATION

I, the undersigned, do hereby certify:

That I am the duly elected and acting Secretary of STONEGATE BERMUDA DUNES HOMEOWNERS ASSOCIATION, a California nonprofit corporation.

That the foregoing Bylaws constitute the original Bylaws of said Association as duly adopted at a meeting of the Board of Directors thereof held on the _____ day of _____, 2006.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Association this _____ day of _____, 2006.

Secretary

(SEAL)