

BYLAWS  
OF  
PALMA SOLA  
HOMEOWNERS' ASSOCIATION

ARTICLE I

NAME AND LOCATION: The name of the Association is PALMA SOLA HOMEOWNERS' ASSOCIATION, hereinafter referred to as the "Association." The principal office of the Association shall be located in the County of San Luis Obispo, California or at such other place as may be designated by the Board.

ARTICLE II

DEFINITIONS

1. The definitions contained in the Declaration are incorporated by reference herein.
2. "Declaration" shall mean the Declaration of Covenants, Conditions and Restrictions applicable to the Project, recorded or to be recorded in the office of the County Recorder of San Luis Obispo County, California.

ARTICLE III

MEETING OF MEMBERS AND VOTING

SECTION 1. ANNUAL MEETINGS. The first annual meeting of Members of the Association shall be held within 45 days after the close of escrow for the sale of the Lot that represents the fifty-first (51st) percentile interest authorized for sale under the first final subdivision public report issued for the Project by the California Department of Real Estate, or within six (6) months after the closing of the sale of the first Lot within the Project, whichever is sooner. Thereafter, annual meetings of Members shall be held at such date and time as shall be established by resolution of the Board of Directors ("Board"). If that day is a legal holiday, the meeting shall be held at the same hour on the first day following that is not a legal holiday.

SECTION 2. SPECIAL MEETINGS. A special meeting of the Members of the Association shall be held not less than 35 nor more than 90 days after either of the following:

- A. The vote for such a meeting by a majority of a quorum of the Board;

B. Receipt of a written request therefore signed by Members representing not less than five percent (5%) of the total voting power of the Association.

SECTION 3. CONDUCT OF MEETINGS. All meetings of Members shall be conducted in accordance with the provisions of Section 1363 of the California Civil Code.

SECTION 4. NOTICE OF MEETINGS. Written notice of each meeting of the Members, regular or special, shall be given by or at the direction of the secretary or person authorized to call the meeting, by personal service of the Member or by mailing a copy of such notice, postage prepaid at least ten (10), but not more than ninety (90) days before such meeting to each Member entitled to vote thereat, addressed to the Member's address last appearing on the books of the Association or supplied by such Member to the Association for the purpose of notice. If there is no such address, notice shall be given at the principal office of the Association. If a special meeting is called by Members pursuant to Section 2(B) above, the notice shall be given within 20 days of receipt of the request for the meeting. Such notice shall specify the place, day and hour of the meeting. The notice shall also specify those matters the Board 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 by the Members. In the case of an annual meeting, any proper matter may be presented at the meeting for action by the Members. If Directors are to be elected at the meeting, the notice shall include the names of all those who are nominees at the time the notice is given.

SECTION 5. QUORUM. The presence at the meeting of Members entitled to cast, or of proxies entitled to cast, one-third (1/3rd) of the total voting power of the Association shall constitute a quorum for any action except as otherwise provided in the Articles, the Declaration or these bylaws. If, however, such quorum shall not be present or represented at the meeting, a majority of those who are present or represented may adjourn the meeting to another time but may not transact any other business. Any such adjournment shall be to a date not less than five (5) days and not more than thirty (30) days from the original 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 not 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 regular meetings. A quorum for such reconvened meeting shall be at least one quarter (1/4) of the total voting power of the Association. Notwithstanding the above, at any meeting in which Member action is required for an increase in regular assessments or the imposition of a special assessment, a majority of all Members of the Association shall be required to constitute a quorum. Any such meeting shall be conducted in accordance with Chapter 5 (commencing with Section 7510) of Part 3 of Division 2 of Title 1 and Section 7613 of the California Corporations Code.

The Members present at a duly called or held meeting at which a quorum is present may continue to conduct business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum.

SECTION 6. PROXIES. At all meetings of Members, each Member may vote in person or by proxy. All proxies shall be in writing and filed with the secretary. Every proxy shall be revocable and shall automatically cease upon conveyance by the Member of his or her Subdivision Interest, or upon receipt of notice of revocation by the secretary or upon receipt of written notice of the death or incapacity of the Member executing the proxy. All voting by proxy shall be consistent with Section 7613 of the California Corporations Code.

Any form of proxy distributed by any person to the membership of the Association shall afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon. It is not necessary that a candidate for election to the Board be named in the proxy or written ballot. The proxy shall provide that, when the Member specifies a choice, the vote shall be cast in accordance with that choice. The proxy shall identify the person or persons who are authorized to exercise the proxy and the length of time that the proxy will be valid.

SECTION 7. LOCATION OF MEETINGS OF MEMBERS. Meetings of Association Members shall be held within the Project or as close thereto as possible. No meeting of Association Members shall be held outside of the County of San Luis Obispo, unless the Board determines unusual conditions exist which warrant such location of the meeting.

SECTION 8. VOTING. The voting of membership provisions contained in the Declaration are hereby incorporated by reference.

SECTION 9. ACTION WITHOUT MEETING. Any action, excepting any election of Directors where cumulative voting is required, which may be taken by the vote of Members at a meeting of members may be taken without a meeting, provided the following requirements are satisfied:

A. The Association shall distribute a written ballot to every Member entitled to vote on the matter. The ballot shall be solicited in the same manner as provided in Section 4 above for the giving of notice of meetings of Members.

B. The ballot shall set forth the proposed action, provide an opportunity to specify approval or disapproval of any proposal, provide a reasonable time within which to return the ballot, indicate the number of responses needed to meet the quorum requirement and state the percentage of approvals necessary to pass the measure submitted.

C. The proposed action shall be considered approved if:

1. 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

2. the number of approvals equals or exceeds the number of votes that would be required for approval at a meeting at which the total number of votes cast was the same as the number of votes cast by ballot.

D. No written ballot may be revoked.

SECTION 10. APPROVAL BY MEMBERS REQUIRED BY STATUTE. Any approval by the Members of the following proposals, other than unanimous approval of those entitled to vote, shall be valid only if the general nature of the approved proposal was stated in the notice of the meeting:

A. Removing a Director without cause pursuant to Section 7222 of the California Corporations Code;

B. Filing vacancies on the Board pursuant to Section 7224 of the California Corporations Code;

C. Entering into or approving a contract or transaction between the Association and one or more of the Directors of the Association or between the Association and any entity in which one or more of the Directors has a material financial interest, pursuant to Section 7223 of the California Corporations Code;

D. Amending the Article of Incorporation pursuant to Section 7812 of the California Corporations Code;

E. Electing to dissolve the Association pursuant to Section 8610 of the California Corporations Code;

F. Approving a plan of distribution in connection with the dissolution of the Association pursuant to Section 8719 of the California Corporations Code.

#### ARTICLE IV

##### BOARD OF DIRECTORS/SELECTION AND TERM OF OFFICE

SECTION 1. NUMBER. The affairs of this Association shall be managed and its duties and obligations performed by a board of three (3) directors who must be Members of the Association.

SECTION 2. TERM OF OFFICE. At the organizational meeting of Members, the Members shall elect three (3) directors for a term of one (1) year. At each annual meeting thereafter, the Members shall elect successors to all directors whose terms then expire.

SECTION 3. ELECTION OF DIRECTORS. Election to the Board shall be by secret written ballot. At such election, each Member or his proxy may cast, in respect to each vacancy, as many votes as they are entitled to exercise under the provisions of

the Declaration. The person receiving the largest number of votes shall be elected. Cumulative voting shall be utilized at all elections in which more than two positions on the Board are to be filled subject only to the procedural prerequisites to cumulative voting prescribed by Section 7615(b) of the California Corporations Code.

SECTION 4. SPECIAL ELECTION PROCEDURE. Notwithstanding any other provision of these Bylaws, for so long as a majority of the voting power of the Association resides in Declarant, or for so long as there are two classes of membership in the Association, at least one Director shall be elected solely by the votes of Members other than Declarant. Any remaining positions on the Board shall be filled in accordance with normal voting procedures. A Director who has been elected by the votes of Members other than Declarant as provided above may only be removed from office prior to the end of his or her term by the vote of a simply majority of the voting power residing in Members other than Declarant.

SECTION 5. REMOVAL AND RESIGNATION. Except as provided in Section 4 above, any Director may be removed from the Board with or without cause, by a majority vote of the Members of the Association. In the event of death or resignation of a Director, his successor shall be selected by the remaining Members of the Board and shall serve for the unexpired term of his predecessor. In the event of the removal of a Director, only the Members may elect a successor Director.

A. Unless the entire Board is removed from office by the vote of Members, an individual Board member shall not be removed prior to the expiration of his term of office if the number of votes cast against his removal would be sufficient to elect the individual Board member if voted cumulatively at an election at which the same total number of votes were cast and the entire number of Board members authorized at the time of the most recent election of the Board were then being elected.

SECTION 6. VACANCIES. The Board may declare vacant the office of a Director on the occurrence of any of the following events:

- A. The Director has died, been adjudicated of unsound mind by a final order of court or has resigned as a Director;
- B. The Director has been convicted of a felony;
- C. The Director has failed to attend three (3) meetings of the Board in any twelve (12) month period.

SECTION 7. COMPENSATION. No Director shall receive compensation for any services he may render to the Association. However, any Director may be reimbursed for his actual expenses incurred in the performance of his duties.

## ARTICLE V

### MEETING OF DIRECTORS

SECTION 1. REGULAR MEETINGS. Regular meetings of the Board shall be held quarterly, or more frequently when the business to be transacted by the Board justifies more frequent meetings. Such meetings shall be held within the Project, unless in the judgment of the Board a larger meeting room is required than exists in the Project, in which case the meeting room selected shall be as close as possible to the Project.

SECTION 2. NOTICE OF REGULAR MEETINGS. Notice of the time and place of such meeting shall be communicated to each Board member not less than four (4) days prior to such meeting, provided, however, that no notice of such meeting need be given to any Director who has signed a waiver of notice or a written consent to the holding of the meeting. Notice of the time and place of such meeting shall also be posted at a prominent place or places within the Common Area and if the Common Area is not suitable for such posting, the notice of the time and place of the meeting shall be communicated by any means deemed appropriate by the Board.

SECTION 3. SPECIAL MEETINGS. Special meetings of the Board may be called by written notice signed by the president of the Association or by any two members of the Board other than the president.

SECTION 4. NOTICE OF SPECIAL MEETINGS. 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 posted in a manner prescribed for notice of regular meetings and sent to all Directors not less than seventy two (72) hours prior to the scheduled time of the meeting, provided, however, that no notice of such meeting need be given to any Director who has signed a waiver of notice or a written consent to the holding of the meeting.

SECTION 5. OPEN MEETINGS. Regular and special meetings of the Board shall be open to all Members of the Association. The Board shall permit any Member of the Association to speak at any board meeting, except for meetings of the Board held in executive session. The Board may set a reasonable time limit for all Members of the Association to speak to the Board.

The Board may, with the approval of a majority of a quorum of its members, adjourn a meeting and reconvene in executive session to discuss and vote upon personnel matters, litigation in which the Association is or may become involved, matters relating to the formation of contracts with third parties, member discipline and orders of business of a similar nature. The Board shall meet in executive session if requested by a member who may be subject to a fine, penalty or other form of discipline and the member may attend the executive session. In all other cases, Members who are not on the Board may not attend an executive session. The nature of any and all

business to be considered in executive session shall first be announced in open session and shall be noted in the minutes of the meeting.

SECTION 6. QUORUM. A majority of the number of Directors shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the Directors present at a duly held meeting at which a quorum is present shall be regarded as an act of the Board.

In the absence of a quorum, a majority of those Directors present may adjourn the meeting to another time, but may not transact any other business. Any such adjournment shall be to a date not less than five (5) and not more than thirty (30) days from the original meeting date.

SECTION 7. ACTION WITHOUT MEETING. The Board may act without a meeting provided all of its members consent in writing to the action to be taken.

If the Board resolves by unanimous written consent to take action, an explanation of the action shall be posted in a prominent place or places within the Common Area or otherwise communicated to all Members within three (3) days after the written consent of all Directors has been obtained. If the Common Area is not suitable for such posting, the explanation of the action shall be communicated by any means deemed appropriate by the Board.

SECTION 8. TELEPHONIC MEETINGS. Any meeting, regular or special, may be held by conference telephone or similar communication equipment so long as all Directors participating in the meeting can hear one another and all such Directors shall be deemed to be present in person at such meeting. Any action then taken pursuant to this section shall be set forth in a written explanation which shall be posted in a prominent place or places within the Common Area or otherwise communicated to all Members within three (3) days after such action is taken.

SECTION 9. EMERGENCY MEETINGS. 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 which require immediate attention and possible action by the Board and which of necessity make it impractical to provide notice as required above.

SECTION 10. MINUTES. Written minutes shall be kept of all meetings of the Board. 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 made available to Members within 30 days of the meeting. Further, the minutes, proposed minutes or summary minutes shall be distributed to any Member upon request. Any Member making such a request shall reimburse the Association for its costs in making that distribution. Members shall be notified in writing at the time that the pro forma budget required by Civil Code Section 1365 is distributed, 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 of how and where those minutes may be obtained and the cost of obtaining such copies.

## ARTICLE VI

### POWERS AND DUTIES OF THE BOARD OF DIRECTORS

SECTION 1. POWERS. The Board shall have the power to:

A. Exercise for the Association all powers, duties and authority vested in or delegated to this Association and not reserved to the membership by other provisions of these Bylaws, the Articles or the Declaration;

B. Enforce the applicable provisions of the Declaration, the Articles and these Bylaws, and any reasonable rules and regulations governing the ownership, management, control and use of the Project.

C. Adopt and publish rules and regulations governing the use of the Common Area, the Lots and facilities and the personal conduct of the Members and their guests thereon, and to establish penalties for the infraction thereof in accordance with the Declaration;

D. Assess Reimbursement or Infraction Assessments, temporarily suspend an owner's rights as a Member of the Association or impose other appropriate discipline for failure to comply with the provisions of the governing instruments or duly adopted rules of the Association provided:

1. Before the Board imposes any monetary penalties against any Member or suspend a Member's rights as a Member of the Association for failure to comply with the Declaration, these Bylaws, or Association Rules, the Board must act in good faith and must satisfy each of the following requirements:

(a) The Member shall be given fifteen (15) days prior notice of the discipline to be imposed and the reasons for the imposition of the discipline. The notice may be given by any method reasonably calculated to give actual notice. If the notice is given by mail, it must be sent by first class or registered mail to the last address of the Member shown on the Association's records; and

(b) The Member shall be given an opportunity to be heard, orally or in writing, by the Board, not less than five (5) days before the effective date of the imposition of the discipline.

E. Perform any act reasonably necessary to resolve any civil claim or action through alternative dispute resolution proceedings such as mediation and binding and non-binding arbitration and paying costs reasonably incurred by the Association on account of those proceedings. The Board is authorized, but not required to:



1. Resolve civil claims or actions by providing, or in good faith attempting to provide, 120 days advance notice of the Board's intent to initiate the prosecution of any civil action and of the nature and basis of the claim to every member of the Association and every entity or person who is a prospective party to the civil action, provided that such notice can be given (1) more than 120 days prior to the expiration of any pertinent statute of limitations, and (2) without prejudice to the Association's right to enforce the governing documents, and further provided that no such notice need be given prior to the filing of an action in small claims court or an action solely to enforce assessment obligations.

2. Prior to initiating the prosecution of a civil action solely for declaratory relief or injunctive relief to enforce the governing documents or for declaratory relief or injunctive relief to enforce the governing documents in conjunction with a claim for monetary damages not in excess of \$5,000.00, the Board shall endeavor to submit the matter to alternative dispute resolution in compliance with Section 1354 (b) of the California Civil Code.

3. Immediately after initiating the prosecution or defense of any civil action, the Board shall make a reasonable, good faith effort to meet and confer with every person who is a party concerning appropriate processes for resolving the civil action, including available alternative dispute resolution proceedings; concerning appropriate processes for avoiding or reducing costs or losses by the parties associated with the action; providing an opportunity to cure any alleged defects in Common Areas or facilities which is the basis of such action; and providing for the scope of discovery, if any, to be conducted prior to the inception of any alternative dispute resolution proceedings.

4. Divert the prosecution or defense of any civil action to alternative dispute resolution proceedings such as mediation, non-binding or binding arbitration.

5. Agree to participate and participate fully and in good faith in the resolution of any civil action through any alternative dispute resolution proceedings described above and to pay costs reasonably incurred by the Association on account of those proceedings.

Nothing contained in this section shall require the Board to (1) conduct inspections, maintain inspection records, exhaust applicable casualty insurance coverage maintained by the Association or provide an opportunity to cure, meet with members or obtain the consent of members, or (2) to submit any civil claim to any kind of binding or non-binding alternative dispute resolution proceeding, unless required by Section 1354(b) of the California Civil Code.

SECTION 2. DUTIES. It shall be the duty of the Board to:

A. Cause to be kept a complete record of all its acts and affairs and to present a statement thereof to the Members at the annual meeting of the Members or

at any special meeting when such statement is requested in writing by one-fourth ( $\frac{1}{4}$ ) of the Members who are entitled to vote;

B. Supervise all officers, agents and employees of this Association and to see that their duties are properly performed;

C. As more fully provided in the Declaration, to:

1. Fix the amount of the annual assessment against each Subdivision Interest not less than forty five (45) days in advance but within sixty (60) days in advance of each annual assessment period;

2. Send written notice of such assessment to every Owner subject thereto at least forty five (45) days in advance of each annual assessment period; and

3. Levy a late charge for the delinquent payment of any assessment that is not paid within fifteen (15) days after its due date; and

4. Impose liens and foreclose such liens on any property for which assessments are not paid or to bring an action at law against the owner personally obligated to pay the same.

D. Issue, or to cause an appropriate officer to issue, upon demand by any person, a certificate setting forth whether or not any assessment has been paid. A reasonable charge may be made by the Board for the issuance of these certificates. If a certificate states an assessment has been paid, such certificates shall be conclusive evidence of such payment;

E. Procure and maintain adequate liability and hazard insurance as required by the Declaration, and not less than biennially review the adequacy of such coverage. The liability insurance shall not be in an amount less than the minimum amount required under Civil Code Section 1365.9 to protect the Owners from liability for injuries occurring in the Common Area.

F. Cause all officers or employees having fiscal responsibilities to be bonded, as it may deem appropriate;

G. Maintain the Project in accordance with the Declaration; and

H. Cause the financial and related information set forth in Section 1365 of the California Civil Code to be prepared and distributed as provided in that section.

I. Pay all expenses and obligations incurred by the Association in the conduct of its business.

J. Review a current reconciliation of the Association's operating accounts on at least a quarterly basis.

K. Review a current reconciliation of the Association's reserve accounts on a least a quarterly basis.

L. Review, on a least a quarterly basis, the current year's actual reserve revenues and expenses compared to the current year's budget.

M. Review the latest account statements prepared by the financial institutions where the Association has its operating and reserve accounts.

N. Review an income and expense statement for the Association's operating and reserve accounts on at least a quarterly basis.

O. At least once every three (3) years, the Board shall cause to be conducted a reasonably competent and diligent visual inspection of the accessible areas of the major components of the Project which the association is obligated to repair, replace, restore or maintain as a part of a study of the reserve account requirements, if such study is required by Section 1365.5(e) of the California Civil Code. Such study shall be in compliance with said section. The Board shall review the reserve study at least annually and shall consider and implement necessary adjustments to its analysis as a result of such review.

P. Not less than annually, the Board shall provide the Owners with a summary of the provisions contained in Civil Code Section 1354, which requires that alternative dispute resolution be pursued before a civil action may be filed in connection with certain disputes relating to the enforcement of the governing documents. The summary must include a specific reference to Section 1354 and the statutory language set forth in Subsection (i) of Section 1354. The summary is to be provided either at the time the pro forma operating budget is distributed to the Members or in the manner provided in Section 5016 of the Corporations Code.

Q. The Association shall provide any Owner with the following documents within 10 days of the mailing or delivery of a written request therefor:

1. A copy of the governing instruments.
2. A copy of the most recent pro forma operating budget.
3. A written statement from an authorized representative of the Association specifying (i) the amount of any assessments levied on the Owner's Lot that are unpaid on the date of the statement; and (ii) the amount of late charges, interest and costs of collection that, as of the date of the statement, are or may be made a lien on the Owner's Lot pursuant to the Declaration.
4. A copy of the preliminary list of defects provided to each Member pursuant to Section 1375 of the California Civil Code, unless the Association and the builder subsequently enter into a settlement agreement or otherwise resolve the matter and the Association complies with Section 1375.1 of the California Civil Code.

Disclosure of the preliminary list of defects pursuant to this paragraph shall not waive any privilege attached to the document. The preliminary list of defects shall also include a statement that a final determination as to whether the list of defects is accurate and complete has not been made.

5. A copy of the latest information provided for in Section 1375.1 of the California Civil Code.

6. Any change in the Association's current regular and special assessments and fees which have been approved by the Board, but have not become due and payable as of the date disclosure is provided pursuant to this section.

The Association may charge a reasonable fee to cover its cost to prepare and reproduce those requested items.

### SECTION 3. LIMITATIONS ON BOARD POWER

A. Subject to the following exceptions, the Board shall not contract with any third party to furnish the Common Area or the Association with goods of any nature or services of any kind for a period in excess of one (1) year, without the vote at a meeting of Members or written ballot of a majority of the Members, other than Declarant. The exceptions to the above limitation are:

1. a management contract, the terms of which have been approved by the Federal Housing Administration or Veterans Administration.

2. a contract with a public utility company if the rates charged for the materials or services are regulated by the Public Utility 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.

3. prepaid casualty and/or liability insurance policies of not to exceed three years duration, provided that the policy permits short rate cancellation by the insured.

4. lease agreements for laundry room fixtures and equipment of not to exceed five years duration, provided that the lessor under the agreement is not an entity in which Declarant has a direct or indirect ownership interest of 10% or more.

5. agreements for cable television services and equipment or satellite dish television services and equipment not exceeding five years duration, provided that the supplier is not an entity in which the Declarant has a direct or indirect ownership interest of 10% or more.

6. agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services not exceeding five years duration, provided that the

supplier or suppliers are not an entity in which the Declarant has a direct or indirect ownership interest of 10% or more.

7. a contract for a term not exceeding three years that is terminable by the Association after not more than one year without cause, penalty or other obligation upon 90 days written notice to the other party.

B. The Board shall not incur aggregate expenditures for capital improvements to the Common Area in excess of five percent (5%) of the budgeted gross expenses of the Association for that fiscal year, without the prior vote or written approval of the Members, excluding Declarant;

C. The Board shall not, without the vote or written consent of a majority of Members excluding Declarant, sell during any fiscal year, property of the Association having an aggregate fair market value greater than five percent (5%) of the budgeted gross expenses of the Association for that fiscal year;

D. The Board shall not pay compensation to its members or to officers of the Association for services performed in the conduct of the Association's business, provided, however, that the governing body may cause a Board member or officer to be reimbursed for expenses incurred in carrying on the business of the Association.

E. 1. No withdrawal of monies shall be made from the Association's reserve accounts unless the signatures of at least two (2) persons authorize such withdrawal; one of such signatures shall be a Board member and the other shall either be another Board member or may be an officer who is not a member of the Board.

2. Reserve funds shall not be expended for any purpose other than those purposes set forth in Section 1365.5 of the California Civil Code.

SECTION 4. COMMITTEES. The Board shall appoint such committees as deemed appropriate in carrying out the Association's purposes.

SECTION 5. STANDARD OF CARE. Each Director shall perform his or her duties as a Director, including the duties as a member of any committee of the Board on which the Director serves, in good faith, in a manner such Director believes to be in the best interests of the Association, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

## ARTICLE VII

### OFFICERS AND THEIR DUTIES

SECTION 1. ENUMERATION OF OFFICES. The offices of this Association shall be a president, a secretary and a treasurer and such other officers as the Board may from time to time by resolution create.

SECTION 2. ELECTION OF OFFICERS. Except officers appointed under Section 4 below, the election of officers shall take place at the annual meeting of the Board following each annual meeting of the Members. The Board shall elect one of its members as president and one of its members as treasurer; the other officers need not be Directors.

SECTION 3. TERM. The officers of this Association shall be elected annually by the Board and each shall hold office for one (1) year and until his or her successor shall be elected, unless he or she shall sooner resign or shall be removed or otherwise disqualified to serve.

SECTION 4. SPECIAL APPOINTMENTS. The Board may elect such other officers as the affairs of the Association may require, each of whom shall hold office for such period, have such authority and perform such duties as the Board may, from time to time determine.

SECTION 5. RESIGNATION AND REMOVAL. Any officers 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 the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6. VACANCIES. A vacancy in any office may be filled by appointment by the Board. The officer appointed 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 any of the other offices except in the case of special offices created pursuant to Section 4 of this Article.

SECTION 8. COMPENSATION. An officer shall not receive any compensation for any service he may render to the Association. However, any officer may be reimbursed for actual out-of-pocket expenses incurred by him in the performance of his duties.

SECTION 9. The duties of the officers are as follows:

President

A. The president shall preside at all meetings of Members and the Board; shall see that orders and resolutions of the Board are carried out; shall sign all leases, mortgages, deeds and other written instruments and shall co-sign all checks and promissory notes. The President shall, subject to the advice of the Board, have general supervision, control and direction of the affairs of the Association.

### Vice President

B. 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.

### Secretary

C. 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 the Members; keep appropriate current records showing the Members of the Association together with his or her address and shall perform such other duties as required by the Board.

### Treasurer

D. The treasurer shall receive and deposit in appropriate bank accounts all monies of the Association and shall disburse such funds as directed by resolution of the Board; shall co-sign all checks and promissory notes of the Association; keep proper books of account; and shall prepare all financial data required by the Declaration of these bylaws and deliver a copy of each to the Members.

SECTION 10. LIMITATION ON OFFICERS' POWERS. No officer may obligate the Association in excess of Five Hundred Dollars (\$500.00) without authority from the Board in the form of a resolution.

## ARTICLE VIII

### BOOKS AND RECORDS

SECTION 1. The membership register, including mailing addresses and telephone numbers, books of account and minutes of meetings of the Members, of the Board and of the committees of the Board, shall be made available for inspection and copying by any Member of the Association or by his duly appointed representative at any reasonable time and for any purpose reasonably related to his interest as a Member, at the office of the Association or at such other place within the Project as the governing body shall prescribe.

SECTION 2. The Board shall establish reasonable rules with respect to:

- A. Notice to be given to the custodian of records by the Member desiring to make the inspection;
- B. Hours and days of the week when such an inspection may be made; and
- C. Payment of the cost of reproducing copies of documents requested by a Member.

SECTION 3. Every member of the Board 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.

## ARTICLE IX

### ASSESSMENTS

As more fully provided in the Declaration, each Member is obligated to pay to the Association regular, special and reimbursement and infraction assessments. If the assessment is not paid within fifteen (15) days after the due date, it is delinquent and shall be assessed a late charge as provided in the Declaration. The Association may bring an action at law against the Member personally obligated to pay the same, or with regard to regular and special assessments, foreclose the lien against the property and, in either case, interest, late charges, costs, and reasonable attorneys' fees of any such action shall be added to the amount of such assessment. No Member may waive or otherwise escape liability for the assessments provided for herein by non-use of the Common Area or abandonment of his Subdivision Interest.

## ARTICLE X

### AMENDMENTS

So long as a two-class voting system is in effect, any amendment of these Bylaws shall require the vote or written consent of Members representing not less than 51% of the voting power of each class of Members. After conversion of the Class B membership to Class A membership, these Bylaws may be amended by the vote or written consent of a majority of the voting power of the Association and a majority of the votes of Members other than Declarant. Notwithstanding the foregoing, the voting power necessary to amend a specific clause or provision shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause.

## ARTICLE XI

### MISCELLANEOUS

SECTION 1. In the case of any conflict between the Articles and these Bylaws, the Articles shall control; and in the case of any conflicts between the Declaration and these Bylaws, the Declaration shall control.

SECTION 2. The fiscal year of the Association shall begin on the first day of January and end on the 31st day of December of each year, except that the initial fiscal year shall begin on the date of the first annual meeting of Members.



**ARTICLE XII**  
**ASSOCIATION RULES**

The Board shall have the power to promulgate rules governing the utilization of the Project and the Lots and the conduct of the owners thereof.

**ARTICLE XIII**  
**INDEMNIFICATION AND INSURANCE**

**SECTION 1. INDEMNIFICATION RIGHT AND POWER.** The Association shall indemnify any agent of the Association who was a party to any proceeding by reason of the fact that the person is or was an agent of the Association against expenses actually and reasonably incurred in any proceeding to the extent that the agent was successful on the merits in defense of the proceeding or in defense of any claim, issue, or matter therein. Expenses shall include any attorneys' fees and any other expense of establishing a right to indemnification.

The Association may indemnify any agent of the Association who was or is a party or is threatened to be made a party to any proceeding by reason of the fact that such person is or was an agent of the Association, against expenses actually and reasonably incurred in connection with such proceeding provided the approval requirements described below have been satisfied.

For purposes of this Article XIII, the term "agent" means any present or former Director, officer, employee, or other agent of the Association, the term "proceeding" means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative, and the term "expenses" includes judgments, fines, or settlements occurring in any proceeding other than a proceeding brought by or on behalf of the Association.

**SECTION 2. INDEMNIFICATION APPROVAL.** Unless indemnification is required as provided in Section 1 above, indemnification shall be made only if authorized in the specific case on a determination that indemnification is proper in the circumstances because the agent satisfied the appropriate standard of care described below. The determination must be made by one of the following methods:

- A. A majority vote of a quorum of the Board consisting of Directors who are not parties to the proceeding.
- B. The affirmative vote or written consent of a majority of the voting power of the Members entitled to vote at a duly held Members' meeting in which a quorum was present, provided that if the agent to be indemnified is a Member, the agent shall not be entitled to vote.

C. The court in such proceeding on application made by the Association, the agent, the attorney or other person rendering services in connection with the defense, whether or not the application is opposed by the Association.

Notwithstanding the foregoing, any indemnification in any proceeding brought by or on behalf of the Association shall be subject to the restrictions contained in California Corporation Code Section 7237(c).

SECTION 3. STANDARD OF CARE. In any proceeding brought by or on behalf of the Association, the applicable standard of care shall require that the agent acted in good faith, in a manner the agent believed to be in the best interest of the Association and with the care, including reasonable inquiry, that an ordinarily prudent person in like position would use under similar circumstances. In all other proceedings, the agent must have acted in good faith, in a manner the agent believed to be in the best interest of the Association and, in the case of a criminal proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

SECTION 4. ADVANCEMENT OF EXPENSES. On approval by the Board, expenses incurred in defending any proceeding may be advanced by the Association prior to the final disposition of the proceeding, provided the Association receives an undertaking by or on behalf of the agent that the advances will be repaid unless it is ultimately determined that the agent was entitled to indemnification as required or authorized by these Bylaws.

SECTION 5. INSURANCE. The Association shall have the power to purchase and maintain insurance on behalf of its agents, against any liability asserted against or incurred by any agent in such capacity or arising out of the agent's status as such whether or not the Association would have the power to indemnify the agent against such liability under Section 1 - 3 above.

#### ARTICLE XIV

#### TAX-EXEMPT STATUS

SECTION 1. The Board and the Members shall conduct the business of the Association in such a manner that the Association shall qualify and be considered an organization exempt from federal and state income taxes pursuant to Section 528 of the Internal Revenue Code and Section 23701t of the California Revenue and Taxation Code, as amended.

SECTION 2. The Board shall file or have filed any annual election for tax-exempt status that is required under federal or state law, and shall cause the Association to comply with the federal and state statutes, rules and regulations pertaining to those exemptions.

## ARTICLE XV

### DECLARANT TO DELIVER DOCUMENTS TO ASSOCIATION

SECTION 1. As soon as readily available, but in no event later than ninety (90) days after the close of escrow on the first Subdivision Interest, copies of the following documents shall be delivered by Declarant to the Board at the office of the Association or at such other place as the Board shall direct:

- A. The recorded subdivision map or maps for the Project;
- B. The recorded Condominium Plan, if any, for the Project;
- C. The deeds and easements executed by Declarant conveying the Common Area or other interest to the Association, if applicable;
- D. The recorded Declaration, including all amendments and annexations thereto;
- E. The filed Articles of Incorporation, if any, and all amendments thereto;
- F. The Bylaws of the Association and all amendments thereto;
- G. All architectural rules and guidelines and all other rules regulating the use of an Owner's Subdivision Interest or the use and enjoyment 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 maintain and 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 Section 11018.6(d) of the California Business and Professions Code but not otherwise described above which establishes or defines the Common Area, mutual or reciprocal rights or responsibilities of members of the Association.

IN WITNESS WHEREOF, we, being all of the Directors of PALMA SOLA HOMEOWNERS' ASSOCIATION have hereunto set our hands this \_\_\_\_\_ day of \_\_\_\_\_, 2003.

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CERTIFICATION

I, the undersigned, do hereby certify:

That I am a duly elected and acting secretary of PALMA SOLA HOMEOWNERS' ASSOCIATION, a non-profit Mutual Benefit corporation; and

That the foregoing Bylaws constitute the original Bylaws of said Association, as duly adopted at a meeting of the Board thereof held on \_\_\_\_\_, 2003.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Association this \_\_\_\_\_ day of \_\_\_\_\_, 2003.

\_\_\_\_\_  
, Secretary