



Bylaws
of
Cypress Ridge Owners Association

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*Bylaws
of
Cypress Ridge Owners Association*

ARTICLE 1.

NAME

1.1 Name. The name of the association is Cypress Ridge Owners Association, a California nonprofit mutual benefit corporation (hereinafter referred to as the "Association"). The Association is organized under the California Nonprofit Mutual Benefit Corporation Law.

ARTICLE 2.

DEFINITIONS

2.1 Declaration. The "Declaration" shall mean, collectively, the Declaration of Covenants, Conditions and Restrictions of Cypress Ridge recorded in the Office of the County Recorder of San Luis Obispo, California, on April 21, 2000, as Instrument No. 2000-021577, and any amendments or supplements recorded or to be recorded pursuant thereto, for the real property legally described in the Declaration.

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

ARTICLE 3.

PRINCIPAL OFFICE

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

ARTICLE 4.

MEMBERS

4.1 Membership; Voting Rights. The qualification for membership, the classes of membership and the voting rights of Members shall be as set forth in Article 5 of the Declaration, all of which are hereby incorporated by reference herein. The provisions of these Bylaws, which are



binding upon all Members, are not exclusive, as Members shall also be subject to the terms and provisions of the Articles, the Declaration and the Association Rules.

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

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

4.4 Organizational Meeting of Members. An organizational meeting shall be held as soon as practicable after incorporation of the Association, and the directors elected then shall hold office until the first annual meeting of the members of the Association. All offices of the Board shall be filled at the organizational meeting.

4.5 Regular Meetings of Members and Notice. The first annual meeting of Members of the Association shall be held no later than six (6) months after the closing and recording of the sale of the first Residential Lot within the Project. Thereafter, regular meetings of Members of the Association shall be held at least once in each calendar year at a time and place within the Project as prescribed in these Bylaws or as selected by the Board. Special meetings may be called as provided for in these Bylaws. Notice of all Members' meetings, regular or special, shall be given by regular mail, personal delivery or overnight courier to all Members, and to any Mortgagee who has requested in writing that such notice be sent to it, and shall be given not less than ten (10) days nor more than thirty (30) days before the time of the meeting and shall set forth the place, date, and hour of the meeting, and the nature of the business to be undertaken. Any Mortgagee, through its designated representative, shall be entitled to attend any such meeting but except as provided in the Section of the Declaration entitled "Voting Rights on Default," shall not be entitled to vote at the meeting.

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

4.7 Record Date and Closing Membership Register. The Board may fix a time, in the future, not exceeding fifteen (15) days preceding the date of any annual meeting 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, and in such case only Members of record on the date so fixed shall be entitled to notice of and to vote the number of votes allocated as of such date at said meeting, notwithstanding any transfer of any membership on the books of the Association after any record date so fixed. For the purpose of determining such record date, the Board may close the books of the Association against transfer of membership during the whole, or any such part, of the period between the record date and the date of any annual meeting or special meeting of the Members.

4.8 Special Election. As long as a majority of the voting power of the Association resides in the Declarant, or as long as there are two outstanding classes of membership in the Association, the election of twenty percent (20%) of the directors (the "specially elected directors") shall be determined at a special election held immediately before the regular election of directors (except in the case of the election of a specially elected director following removal of his or her predecessor) commencing as of the first Annual Meeting. At the duly constituted meeting of Members, nominations for the specially elected director shall be made from the floor. When nominations have been closed, the special election shall take place. Declarant shall not have the right to participate in or vote in such special election (although Declarant or Declarant's representatives may be present), and the candidates receiving the highest number of votes up to the number of specially elected directors to be elected shall be deemed to be the specially elected directors, and their term shall be the same as that of any other director. Unless Members (excluding Declarant) holding a majority of all voting rights (excluding any voting rights held by Declarant) assent by vote or written consent, such specially elected directors cannot be removed. In case of the death, resignation, or removal of a specially elected director, his or her successor shall be elected at a special meeting of Members, and the provisions set forth in this Section respecting the election of a specially elected director shall apply as to the election of a successor. Except as provided in these Bylaws, the provisions of these Bylaws and of the Articles and the Declaration applicable to directors, including their election and removal, shall apply to a specially elected director.

4.9 Notice of Meetings. Notice of all Members meetings, annual or special, shall be given by mail, overnight courier or in person. Notice of all annual meetings shall be given not less than ten (10) days nor more than thirty (30) days prior to the time of said meeting and shall set forth the place, date and hour of the meeting, and the nature of the business to be undertaken, including any matters the Board intends to present for action by the Members; provided, however, that except as otherwise provided by law, any matter appropriate for presentation to the Board may be presented at the meeting for action. Notices of all Members meetings shall be given by, or at the direction of, the secretary or person authorized to call the meeting, and shall be transmitted to each Member entitled to vote thereat and to each Mortgagee addressed to such Member's or Mortgagee's address last appearing on the books of the Association, or supplied by such Member or Mortgagee to the Association for the purpose of notice. Mailed notices shall be deemed received forty-eight (48) hours after same are mailed by certified mail, return receipt requested; notice by overnight courier shall be deemed received the next business day after deposit with such overnight courier; and notice by personal delivery shall be deemed received upon delivery to any occupant of the Member's residence.



4.10 Quorum. The presence at any meeting in person or by proxy of Members entitled to cast at least twenty-five percent (25%) of the total voting power of all Members of the Association shall constitute a quorum. If any meeting cannot be held because a quorum is not present, Members representing a majority of the votes present, either in person or by proxy, may adjourn the meeting to a time not less than five (5) days nor more than thirty (30) days from the time the original meeting was called, at which adjourned meeting the quorum requirement shall be at least twenty-five percent (25%) of said total votes. If a time and place for the adjourned meeting is not fixed by those in attendance at the original meeting or if for any reason a new date is fixed for the adjourned meeting after adjournment, notice of the time and place of the adjourned meeting shall be given to the Members in the manner prescribed for annual meetings. Any meeting of Members where a quorum is present may be adjourned for any reason to a time not less than forty-eight (48) hours nor more than thirty (30) days from the time of such meeting by Members representing a majority of the votes present, either in person or by proxy; provided however, that the only matters that may be voted upon at any meeting attended, in person or by proxy, by less than one-third (1/3) of the total voting power of the Members are matters for which notice of the general nature of such matters was provided to the Members in the notice of the meeting.

4.11 Cumulative Voting. Voting for the governing body shall be by secret written ballot. Election to and removal from the Board shall be by cumulative voting as defined in California Corporations Code Section 708 and any successor statutes or laws, except that no Member shall be entitled to cumulate votes for a candidate or candidates unless such candidate's name or candidates' names have been placed in nomination prior to the voting and the Member has been given notice at the meeting prior to the voting of the Member's intention to cumulate votes. If any one Member has given such notice, all Members may cumulate their votes for candidates in nomination. Each Owner shall be entitled to vote, in person or by proxy, as many votes as such Owner is entitled to exercise as provided in these Bylaws multiplied by the number of directors to be elected or removed, and he may cast all of such votes for or against a single candidate or director, or such Owner may distribute them among the number of candidates or directors to be elected or removed, or any two or more of them. The candidates receiving the highest number of votes up to the number of directors to be elected shall be deemed elected. As to removal, unless the entire Board is removed by a vote of Association Members, an individual director shall not be removed prior to the expiration of its 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 the Board Member were then being elected.

4.12 Proxies. At all meetings of Members each Member may be present in person or by a representative, known as a proxy, duly authorized by an instrument in writing and filed with the Board prior to the meeting to which it is applicable. Proxies shall specify the person or persons authorized to exercise the proxy and the length of time the proxy will be valid. Any proxy or written ballot distributed by any person to the membership of the Association shall afford the opportunity to specify a choice between approval or disapproval between each matter or group of matters to be acted upon, and where the Member specifies a choice, the vote shall be cast in accordance with that



choice. It is not mandatory that a candidate for election to the governing body be specifically named in the proxy or written ballot. All proxies shall be revocable at any time by written notice to the Board or by attendance in person by such Member at the meeting for which such proxy was given and all proxies shall automatically cease when the ownership interest or interests of such Member entitling him to membership in the Association ceases. In any event, no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy, unless otherwise provided in the proxy, except that the maximum term of any proxy shall be three (3) years from the date of execution. Such powers of designation and revocation may be exercised by the guardian of any such Member's estate or by such Member's conservator, or in the case of a minor having no guardian, by the parent entitled to such minor's custody, or during the administration of any such Member's estate, by his or her executor or administrator where the latter's interest in such property is subject to administration in his or her estate.

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

4.14 Parliamentary Procedure. The President of the Association or another person elected at a meeting shall preside over meetings of Members. All meetings of Members shall be conducted in accordance with a recognized system of parliamentary procedure or any parliamentary procedure the Association may adopt.

4.15 Majority of Owners. Except as otherwise provided herein, in the Declaration, the Articles or the California Nonprofit Corporation Law, the majority of the total voting power present and voting, in person or by proxy, at a duly held meeting at which a quorum is present shall prevail. The Members present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the total voting power required to constitute a quorum.

4.16 Action Without Meeting. Unless otherwise prohibited herein, in the Declaration, the Articles or the California Nonprofit Mutual Benefit Corporations Law, any action which may be taken at a meeting of the Members, except the election of governing directors where cumulative voting is a requirement, may be taken without a meeting if authorized by a writing signed by all of the Members who would be entitled to vote at a meeting for such purpose and filed with the secretary or, in certain circumstances, by written ballot without a meeting, as set forth in Section 4.5 of the Declaration.



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

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

ARTICLE 5. DIRECTORS

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

5.2 Duties. It shall be the duty of the Board:

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

(2) to supervise all officers, agents and employees of the Association, and to see that their duties are properly performed;

(3) to perform all obligations of the Association; and

(4) to delegate its powers as provided in the Declaration and these Bylaws.

5.3 Number. The Board shall initially consist of three (3) directors who shall be appointed by Declarant until the first annual meeting at which directors are elected at which time the Board shall consist of five (5) directors.

5.4 Nomination. Nomination for election to the Board shall be made by a nominating committee consisting of three (3) persons. Nominations may also be made from the floor at each annual meeting. The nominating committee shall consist of a chairperson, who shall be a member of the Board, and two (2) other persons who may either be Members of the Association or representatives of Declarant. Each member of the nominating committee shall be appointed by the Board to serve for a period of one (1) year, and vacancies thereon shall be filled by the Board. 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 to be filled.

5.5 Election and Term of Office. Until the holding of the organizational meeting, the Board shall consist of three directors who are appointed by Declarant. Thereafter, election to the Board shall be by secret ballot and the Board shall consist of five (5) directors. At such election, the Members, or their proxies, may cast, in respect to each vacancy, as many votes as they are entitled to cast under the provisions of the Declaration (and subject to cumulative voting as therein described). The candidates receiving the highest number of votes shall be deemed elected. The term of office of the directors shall be two (2) years and elections shall be held on a staggered basis as provided for below. At the organizational meeting the Members shall elect each of the five (5) directors. The three (3) directors who receive the highest number of votes shall serve for a term of two (2) years and the remaining two (2) directors shall initially serve for a term of one (1) year and thereafter shall serve for a term of two (2) years. Successor directors shall be elected at the next annual meeting corresponding with the expiration of the terms. All directors shall hold office until their respective successors are elected. Elections to the Board shall be in accordance with the provisions of the California Nonprofit Mutual Benefit Corporations Code. Notwithstanding the foregoing, the Board may vote, at any time, not to have directors serve terms on a staggered basis, in which case, all terms of office shall be for one (1) year.

5.6 Removal. At any special meeting of the Members of which notice has been given properly as provided in these Bylaws, the entire Board or any individual director may be removed from office as hereinafter set forth, provided that the same notice of said special meeting has also been given to said entire Board or any individual director whose removal is to be considered at said special meeting. The entire Board or any individual director may be removed from office by a majority of the affirmative votes cast in the voting on any motion or resolution for removal. However, unless the entire Board is removed, an individual director shall not be removed prior to the expiration of such director's term of office if the number of votes cast against the motion or resolution for such director's 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 the directors were then being elected; provided, however, if a special meeting is called to remove a director elected by Declarant, then until Declarant no longer owns any interest in the Project, no such director shall be removed without the consent of Declarant. Upon any such motion or resolution for removal, every Member may cumulate his or her vote or votes, as the case may be, in the same manner as provided for the election of directors in the Declaration. In the event that any or all directors are so removed, new directors may be elected at the same meeting.

5.7 Vacancies. Vacancies on the Board may be filled by a majority of the directors, though less than a quorum, and each director so elected shall hold office until such director's successor is elected at an annual meeting of Members, or at a special meeting called for that purpose. A vacancy or vacancies shall be deemed to exist in case of the death, resignation or removal of any director. If the Members shall increase the authorized number of directors but shall fail to elect the



additional directors as provided for at the meeting at which such increase is authorized, or at an adjournment thereof, or in case the Members fail, at any time, to elect the full number of the 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 these Bylaws is voted authorizing an increase in the number of directors.

5.8 Resignation. If any director tenders his or her resignation to the Board, the Board shall have the power to elect a successor to take office at such time as the resignation shall become effective. No reduction of the number of directors shall have the effect of removing any director from office prior to the expiration of his or her term of office.

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

5.10 Organizational Meeting of the Directors. 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 dispensed with.

5.11 Other Regular Meetings. Other regular meetings of the Board shall be held when business warrants such a meeting as determined by the Board, but not less than every three (3) months at such place and hour as may be fixed from time to time by resolution of the Board. The Board shall select a meeting place. Should any such meeting fall upon a legal holiday, then that meeting shall be held at the same time on the next day which is not a legal holiday. Notice of the time and place of any such meeting shall be communicated to Board members not less than four (4) days prior to the meeting; provided, however, that notice of a meeting need not be given to any Board member who has signed a waiver of notice or a written consent to holding of the meeting.

5.12 Special Meetings. Special meetings of the Board shall be held when 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 seventy-two (72) hours prior notice to each director. The notice shall specify the time and place of the meeting and the nature of any special business to be considered; provided, however, that notice of a meeting need not be given to any director who has signed a waiver of notice or a written consent to holding of the meeting. The notice shall be posted in the manner prescribed for notice of regular meetings not less than seventy-two (72) hours prior to the scheduled time of the meeting.

5.13 Emergency Meetings. An emergency meeting of the Board may be called by the President of the Association, or by any two (2) 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 impracticable to provide notice to Members as required in Section 5.18 of these Bylaws.

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

5.15 Waiver of Notice. The transaction of any business at any meeting of the Board, however called and noticed, or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice or a consent to holding such meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the records of the Association or made a part of the minutes of the meeting. Notice of meeting shall also be deemed to be given to any director who attends the meeting without protesting before or at its commencement about the lack of notice.

5.16 Quorum. A majority of the total number of directors shall constitute a quorum for the transaction of business at a meeting of the Board. 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 the act of the Board. If permitted by applicable law, directors may participate in a meeting through use of a conference telephone or similar communications equipment, so long as all directors participating in such meeting can hear one another. Participation in a meeting pursuant to this Section constitutes presence in person at such meeting.

5.17 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, a 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.

5.18 Notice of Board Meetings to Members; Participation by Members; Executive Sessions. The secretary shall post a notice of the time and place of all regular and special Board meetings in a conspicuous place within the Association Property, or by mail or delivery of the notice to each Residential Lot, or by newsletter or similar means of communication, except for an emergency meeting described in Section 5.13 above, not less than four (4) days prior to the scheduled time of the meeting. Regular and special meetings of the Board (excluding any meetings while the Board is in executive session) shall be open to all Members of the Association; provided, however, that Members who are not on the Board shall be permitted to speak at Board meetings subject to such reasonable time limits as may be set by the Board. In addition, if the nature of the business is first announced in open session, the Board may vote to adjourn and reconvene in executive session out of the presence of the Members to discuss and vote upon litigation matters, matters that relate to the formation of contracts with third parties, personnel matters, and orders of business of a similar or otherwise sensitive nature. In any matter relating to the discipline of a Member, the Board shall meet in executive session with respect to such matter if requested by that



Member, and the Member shall be entitled to attend the executive session. Any matter discussed in executive session shall be generally noted in the minutes of the Board.

5.19 Board Minutes. The minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes of any meeting of the Board, other than an executive session, shall be available to Members within thirty (30) days of the applicable meeting of the Board. The minutes, proposed minutes, or summary minutes shall be distributed to any Member upon request and upon reimbursement of the Association's cost for making that distribution. Further, the Members shall be notified in writing at the time that the pro-forma operating budget of the Association set forth in Section 9.2 of these Bylaws 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 how and when those minutes may be obtained. As used in this Section, "meeting" includes any congregation of the majority of the members of the Board at the same time and place to hear, discuss, or deliberate upon any item of business scheduled to be heard by the Board, except those matters that may be discussed in the executive session.

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

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

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

5.23 Administration of Association's Civil Claims. Subject to any contrary provisions of the Declaration and these Bylaws, if any, the Board may institute, defend, settle or intervene on behalf of the Association in litigation, arbitration, mediation or administrative proceedings in matters pertaining to (a) enforcement of the Project Documents, or (b) damage to the Association Property.

ARTICLE 6. OFFICERS

6.1 Enumeration of Offices. The officers of the Association shall be a president and vice president, who shall at all times be directors, a chief financial officer and a secretary and such other



officers as the Board may create from time to time by resolution. Officers other than the president and vice president may, but need not, be directors.

6.2 Appointment; Term. The appointment of officers shall take place at the organizational meeting of the Board and thereafter at each meeting of the Board following each annual meeting of the Members. The officers of the Association, except such officers as may be appointed in accordance with Section 6.3 below, shall be appointed annually by the Board and each shall hold office for one (1) year unless such officer shall sooner resign, or shall be removed, or shall otherwise be or become disqualified to serve.

6.3 Special Appointments. The Board may appoint 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.

6.4 Resignation and Removal. Any officer may be removed from office with or without cause by the vote of a majority of all directors then in office at any regular or special meeting of the Board at which a quorum is present. 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.

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

6.6 Multiple Offices. Any two (2) or more offices, except those of president and secretary, may be held by the same person.

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

6.7.1 President. The president shall be the chief executive of the Association and shall have, subject to the control of the Board and the provisions of the Declaration, general supervision, direction and control of the business and officers of the Association. The president may, but need not, be the Chairman of the Board. The president shall be an ex-officio member of all standing committees, if any, and shall have the general powers and duties of management usually vested in the office of the president of a corporation, and shall have such other powers and duties as may be prescribed by the Board or these Bylaws. The president 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 of the Association.

6.7.2 Vice President. The vice president shall act in the place and stead of the president in the event of the president's absence, inability or refusal to act, and when so acting, shall have all of the powers of, and be subject to all the restrictions upon, the office of president. The vice



president shall have such other powers and shall exercise and discharge such other duties as may be required of him or her, from time to time, by the Board or these Bylaws.

6.7.3 Secretary. The secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the Members, shall serve notices of meetings of the Board and of the Members, shall keep appropriate current records showing the Members of the Association together with their addresses, the property to which each membership relates, the number of votes represented by each Member, the number and date of membership certificates issued, if any, and the number and date of cancellation of membership certificates, if any, shall keep the seal of the Association in safe custody and shall perform such other duties as required by the Board.

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

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

- (1) two (2) directors; or
- (2) one (1) director and an officer of the Association who is not also a director.

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

ARTICLE 7. INDEMNIFICATION

7.1 Generally. A director, officer, committee member, employee or other agent of the Association who is a party to or is threatened to be made a party to any proceeding (including a



proceeding by or on behalf of the Association) because he or she is or has been a director, officer, committee member, employee or agent of the Association shall be indemnified by the Association against all expenses and liabilities actually and reasonably paid or incurred in connection with the proceeding to the maximum extent permitted by the California Nonprofit Mutual Benefit Corporation Law, pursuant to the provisions of California Civil Code Section 1365.7 and any successor statutes or laws. Terms used in this Article shall have the same meaning as in California Corporations Code Section 7237 and any successor statutes or laws.

7.2 Approval. Upon written request to the Board by any person seeking indemnification, the Board shall promptly determine whether the applicable standard of conduct set forth in the California Nonprofit Mutual Benefit Corporation Law has been met. If so, the Board shall authorize indemnification. If the Board cannot authorize indemnification because the number of directors who are parties to the proceeding with respect to which indemnification is sought prevent a quorum of directors who are not parties to the proceeding, the Board shall promptly call a special meeting of Members. At the meeting, the Members shall determine whether the applicable standard of conduct set forth in the California Nonprofit Benefit Corporation Law has been met. If so, the Members shall authorize indemnification. Members or other persons seeking to be indemnified shall not be entitled to vote on the question of indemnification.

7.3 Advancing Expenses. Except as otherwise determined by the Board in a specific instance, expenses incurred by a director, officer, committee member, employee or agent seeking indemnification under Section 7.1 shall be advanced by the Association prior to the final disposition of the proceeding upon receipt of an undertaking by or on behalf of the director, officer, committee member, employee or agent to repay the amount unless it is ultimately determined that the person is entitled to be indemnified by the Association.

ARTICLE 8. ASSESSMENTS

8.1 Liability for Assessments; Collection. As more fully provided in Article 6 of the Declaration, each Member is obliged to pay to the Association annual and special assessments to be collected as therein set forth, all of which are hereby incorporated by reference herein as if set forth in full.

ARTICLE 9. ASSOCIATION'S ACCOUNTS

9.1 Books and Records.

9.1.1 Records Available. Any membership register, including mailing addresses, books of account and minutes of meetings of the Members, the Board and committees of the Board of the Association (excluding any minutes of meetings while the Board is in



executive session), shall be made available for inspection and copying by any Member of the Association, or such Member's duly-appointed representative, or any Mortgagee, at any reasonable time and for a purpose reasonably related to his or her interest as a Member, at the office of the Association or at such other place within the Project as the Board prescribes. Upon request and payment of the fees prescribed under Section 9.1.2(c), regular minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of any minutes, other than minutes of executive session meetings, shall be made available to Members within thirty (30) days of any such meeting. Members shall have such additional access and inspection rights with respect to records of the Association as is provided in Article 12 (commencing with Section 8330) of Chapter XIII of Part III of Division II of Title I of the California Corporations Code and any successor statutes or laws, or any successor statute or law. At the time the proforma operating statement is delivered under Section 9.2.1 of these Bylaws or at the time of any mailing, Members shall be notified in writing of their right (a) to have copies of Minutes, (b) how and where to obtain such copies, and (c) the cost of obtaining such copies.

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

- (1) Notice to be given to the custodian of the records of the Association by the Member, representative or Mortgagee desiring to make an inspection;
- (2) Hours and days of the week when an inspection may be made; and
- (3) Payment of the cost of reproducing copies of documents requested by a Member or by a representative or Mortgagee.

9.1.3 Rights of Directors. Every director of the Association 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.

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

9.2.1 Budgets. A pro-forma operating statement (budget) for each fiscal year consisting of at least the following information shall be distributed to all Members of the Association not more than forty-five (45) days and not less than sixty (60) days prior to the beginning of the fiscal year, together with a copy of California Civil Code Section 1354 relating to dispute resolution procedures:

- (1) Estimated revenue and expenses on an accrual basis;



(2) A summary of the Association's reserves based upon the most recent review or study conducted pursuant to Section 9.3 of these Bylaws, which shall be printed in bold type and include the following:

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

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

1. The current estimate of the amount of cash reserves necessary to repair, replace, restore or maintain the major components; and

2. The current amount of accumulated cash reserves actually set aside to repair, replace, restore, or maintain the major components;

(3) The percentage that the current amount of accumulated cash reserves determined for purposes of Subsection 9.2.1(b)(ii)(b) is of the current estimate of the amount of accumulated cash reserves determined for purposes of Subsection 9.2.1(b)(ii)(a);

(3) A statement as to whether the Board has determined or anticipates that the levy of one or more Special Assessments will be required to repair, replace, or restore any major component or to provide adequate reserves therefor; and

(4) A general statement setting forth the procedures used by the Board in the calculation and establishment of reserves to defray the costs of repair, replacement or additions to major components of the Association Property and any other areas or Improvements within the Project for which the Association is responsible, if applicable.

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

9.2.2 Balance Sheets. A balance sheet as of an accounting date which is the last day of the month closest in time to six (6) months from the date of closing of the first Residential Lot in the Project and an operating statement for the period from the date of the first closing to the said accounting date, shall be distributed to the Members of the Association within sixty (60) days after the accounting date. This operating statement shall include a schedule of assessments



received and receivable identified by number of the subdivision interest and the name of the entity assessed.

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

(1) Cause a current reconciliation of the Association's Maintenance and Operation Account to be made and review the same;

(2) Cause a current reconciliation of the Association's Reserve Account to be made and review the same;

(3) Review the current year's actual reserve revenues and expenses compared to the current year's budget;

(4) Review the most current account statements prepared by the financial institution where the Association has its Maintenance and Operation Account and Reserve Account; and

(5) Review an income and expense statement for the Association's Maintenance and Operation Account and Reserve Account.

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

9.2.5 Association Policies. A statement setting forth the Association's policies and practices in enforcing the lien rights and other legal remedies for the default in the payment of Assessments against Members shall be distributed to the Members of the Association within sixty (60) days prior to the beginning of each fiscal year.

9.2.6 Schedule of Monetary Penalties. If the Association adopts or has adopted a policy imposing any monetary penalty, including any fee, on any Member for a violation of the governing documents or rules of the Association, 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 the discipline of Members contained in the Project Documents. The Board shall not be required to distribute any additional schedules of monetary penalties unless there are changes from the schedule that was adopted and distributed to the Members as provided herein.

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

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

(1) A summary of the property, general liability, and earthquake and flood insurance policies to be carried by the Association pursuant to the Declaration that states all of the following:

- (1) The name of the insurer;
- (2) The type of insurance;
- (3) The policy limits of the insurance; and
- (4) The insurance deductibles.

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

9.2.9 Insurance Disclosure. To the extent that the information to be disclosed pursuant to Section 9.2.8(a) is specified in the declaration page of the applicable insurance policy, the Board may meet the requirements of those provisions by making copies of that page and distributing it to the Members.



(1) The summary of the Association's insurance policies distributed pursuant to Section 9.2.8(a) shall contain the statement required under California Civil Code Section 1365(e)(4) and any successor statutes or laws.

9.3 Reserves.

9.3.1 **Transfer of Reserve Funds.** As provided in California Civil Code Section 1365.5 and any successor statutes or laws, 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 for which the Association is obligated to repair, restore, replace, or maintain and for which the reserve fund was established. However, the Board may authorize a temporary transfer of money from a reserve fund to the Association's general operating fund to meet short-term cash-flow requirements or other expenses, provided that the Board has made a written finding describing the reasons why a transfer from reserves to operating funds is necessary and how and when the money will be repaid to the reserve fund. The Association must notify all members of the decision in the next mailing to all Members and of the availability of an accounting of these expenses. The transferred funds shall be restored to the reserve fund within one (1) year of the date of the initial transfer, except that the Board may, upon making a finding supported by documentation that a temporary delay would be in the best interest of the Project, temporarily delay the restoration of these funds until the time the Board reasonably determines to be necessary. 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. Such Special Assessment is not subject to the limitation imposed by California Civil Code Section 1366 and any successor statutes or laws or as provided in the Declaration. The Board may, at its discretion, extend the date the payment of the Special Assessment is due; provided that any such extension shall not prevent the Board from pursuing any legal remedy to enforce the collection of any unpaid Special Assessment. In addition to the foregoing, when a decision is made to use reserve funds or to temporarily transfer money from the reserve fund to pay for litigation involving the repair, restoration, replacement or maintenance of major components for which the Association has the obligation to repair, restore, replace or maintain and for which the reserve fund was established, the Association shall notify the Members of that decision and the next available mailing to all Members pursuant to California Corporations Code Section 5016 and any successor statutes or laws, and of the availability of an accounting of those expenses. The Association shall make an accounting of expenses related to such litigation on at least a quarterly basis, which shall be made available for inspection by Members at the Association's office.

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



(1) The 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;

(2) Identification of the probable remaining useful life of the components identified in Subsection 9.3.2(a) of these Bylaws as of the date of the study;

(3) An estimate of the cost of repair, replacement, restoration, or maintenance of each major component identified in 9.3.2(a) during and at the end of its useful life; and

(4) An estimate of the total annual contribution necessary to defray the costs to repair, replace, restore, or maintain each major component during and at the end of its useful life, after subtracting total reserve funds as of the date of the study.

As used in this Section 9.3, "reserve accounts" means monies that the Board has identified for use to defray the future repair or replacement of, or additions to, those major components which the Association is obligated to maintain. In addition, as used in this Section, "reserve account requirements" means the estimated funds which the Board has determined or required to be available at a specified point in time to repair, replace, or restore those major components which the Association is obligated to maintain under the Declaration.

9.3.3 Visual Inspections. 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 with respect to which the Association is required 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 identified in the reserve study described in Section 9.3.2 above is equal to or greater than one-half of the Association's gross budget exclusive of the reserve account for such three year period.

9.4 Managing Agent's Handling of Association Fund. The Managing Agent, as set forth in the Articles of Incorporation for the Project shall handle any Association funds in compliance with California Civil Code Section 1363.2 and any successor statutes or laws.

9.5 Changes in Common Interest Development Act. The provisions set forth above in this Article 9 are intended to comply with the provisions of the Common Interest Development Act set forth at California Civil Code section 1350, et seq. ("CID Act") and any successor statutes or laws. Upon any changes to the CID Act relating to the Association's account, reporting requirements hereunder or any other changes affecting the terms and provisions of these Bylaws, the Board shall comply with the provisions of the CID Act and the Board shall have the right to attach to these Bylaws any changes required as a result of the changes to the CID Act without any vote of the Members.



ARTICLE 10.
AMENDMENTS

10.1 Vote Required. These Bylaws may be amended only with:

- (1) A majority of the voting power of the Association; and
- (2) A majority of the votes of Members other than the Declarant.

10.2 Amendment of Specific Provisions. Notwithstanding Section 10.1 hereof, the percentage of the voting power of the Association or of Members other than the Declarant necessary to amend a specific clause or provision in these Bylaws shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause or provision.

10.3 Compliance with Business and Professions Code. Notwithstanding any other provision in this Article 10, the adoption of any amendment to these Bylaws shall comply with the provisions of California Business and Professions Code Section 11018.7 and any successor statutes or laws, to the extent that said Section is applicable.

10.4 U.S. Department of Veterans Affairs Approval. So long as there is a Class B Membership in the Association, any amendment to these Bylaws shall be submitted to and approved by the U.S. Department of Veterans Affairs prior to adoption.

ARTICLE 11.
ENFORCEMENT OF BONDED OBLIGATIONS

11.1 Association Property Improvements. In the event that the Improvements to be installed by Declarant on the Association Property have not been completed prior to the issuance by the California Department of Real Estate of a Final Subdivision Public Report covering the Subject Property, and in the further event that the Association is the obligee under a bond to secure performance by the Declarant to complete such Improvements, then if such Improvements have not been completed and a notice of completion filed within sixty (60) days after the completion date specified in the planned construction statement appended to the bond, the Board shall consider and vote upon the question of whether or not to bring action to enforce the obligations under the bond. If the Association has given an extension in writing for the completion of any such Improvement, then the Board shall consider and vote on said question if such Improvements have not been completed and a notice of completion filed within thirty (30) days after the expiration of the extension period. In the event that the Board determines not to take action to enforce the obligations secured by the bond, or does not vote on the question as above provided, then, in either such event, upon petition signed by Members representing five percent (5%) or more of the voting power of the Association,



excluding the voting power of Declarant, the Board shall call a special meeting of the Members of the Association to consider the question of overriding the decision of the Board or of requiring the Board to take action on the question of enforcing the obligations secured by the bond. Said meeting of Members shall be held not less than thirty-five (35) days nor more than forty-five (45) days following receipt of the petition. At said meeting a vote of a majority of the voting power of Members of the Association, excluding the vote of Declarant, to take action to enforce the obligations under the bond shall be deemed to be the decision of the Association, and the Board shall thereafter implement the decision by initiating and pursuing appropriate action in the name of the Association.

ARTICLE 12. GENERAL PROVISIONS

12.1 Contracts, etc.; How Executed. The Board, except as otherwise provided in these Bylaws, may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument permitted under the Declaration or these Bylaws in the name of and on behalf of the Association, and such authority may be general or confined to specific instances; and 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.

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

12.3 Singular Includes Plural. Wherever the context of these Bylaws requires same, the singular shall include the plural and the masculine shall include the feminine.

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

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

12.6 Proof of Membership. If requested by Board, no person shall exercise the rights of membership in the Association until satisfactory proof thereof has been furnished to the secretary. Such proof may consist of either a copy of a duly executed and acknowledged grant deed or title insurance policy showing said person to be the owner of an interest in a Residential Lot entitling him or her to membership. Such deed or policy shall be deemed conclusive in the absence of a conflicting claim based on a later deed or policy.



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

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

CERTIFICATE OF SECRETARY

KNOW ALL MEN BY THESE PRESENTS:

The undersigned, Secretary of Cypress Ridge Owners Association, a California non-profit mutual benefit corporation, does hereby certify that the above and foregoing Bylaws were duly adopted by the Board of Directors of said Association on _____, 2000 and that they now constitute said Bylaws.

Secretary

