

INDEX TO  
 BYLAWS  
 OF  
 SCOTTSBOROUGH TOWNHOMES HOMEOWNERS'  
 ASSOCIATION

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BYLAWS  
OF  
SCOTTSBOROUGH TOWNHOMES HOMEOWNERS' ASSOCIATION

ARTICLE I

NAME AND LOCATION

The name of this nonprofit mutual benefit corporation is "SCOTTSBOROUGH TOWNHOMES HOMEOWNERS' ASSOCIATION\* (the "Association"). The principal office of the Association shall be in the County of Santa Cruz, State of California.

ARTICLE II

DEFINITIONS

The terms used herein shall have the meanings set forth in Article II of the Declaration of Covenants, Conditions and Restrictions of Scottsborough Townhomes, a planned development project, recorded on \_\_\_\_\_, 19\_\_\_\_, in Book \_\_\_\_ at Page \_\_\_\_\_, et seq., as Recorder's Series No. \_\_\_\_\_, in the Official Records of the County of Santa Cruz, State of California ("Declaration").

ARTICLE III

POWERS AND DUTIES OF ASSOCIATION AND BOARD

3.1 GENERALLY:

3.1.1 Powers of Association: The Association has the general power to ~~do~~ any and all things that a non-profit mutual benefit corporation organized under the laws of the State of California may lawfully do for the benefit of its Members, specifically including any and all lawful actions which may be authorized, required or permitted to be done under and by virtue of the Project Documents or which may be necessary and proper for or incidental to the exercise of any of the express powers of the Association or for the peace, health, comfort, safety or general welfare of the Members. The Association shall have all of the powers and duties set forth in the Project Documents, subject to the limitations stated below,

3.1.2 Powers of Board: The Board shall have the authority to undertake all duties of the Association and the duty to assume responsibility for the management and conduct of the affairs of the Association. The authority of

the Board to act shall be limited insofar as the Project Documents expressly reserve certain powers to the Members. The Board shall obtain legal, accounting and managerial services as necessary for the proper maintenance and operation of the Project. The Board may delegate any of its powers to any committee, officer or employee as the Board deems necessary and proper subject to the following limitations:

(a) No committee shall have the power to: (i) approve any action which requires the approval of the Members as provided in the Déclaration or these Bylaws; (ii) fill vacancies on the Board or any committee; (iii) amend or repeal these Bylaws or adopt new Bylaws; (iv) amend or repeal any resolution of the Board; or (v) appoint Directors, committees of the Board or members thereof.

(b) The Board may not delegate its authority to: (i) hold Hearings; (ii) levy fines and/or penalties; or (iii) impose any other type of discipline upon Members.

3.2 LIMITATIONS ON POWER OF BOARD: Without the vote or written consent of fifty-one percent (51%) of each class of Members, the Board shall be prohibited from taking any of the following actions:

3.2.1 Contracts: Entering into a contract with a third person for goods or services for the Common Area or the Association for a term longer than one (1) year, with the following exceptions:

(a) A management contract, the terms of which have been approved by the Federal Housing Administration or the Veterans Administration;

(b) A contract with a public utility if the rates charged for the materials or services are regulated by the Public Utilities Commission; provided, however, that the term of the contract shall not exceed the shortest term for which the supplier will contract at the regulated rate;

(c) Prepaid casualty or liability insurance of not more than three (3) years duration, provided that the policy permits for short rate cancellation by the insured; and

(d) Lease agreements not to exceed five (5) years in duration for laundry room fixtures and equipment, provided that the lessor under the agreement is not an

entity in which Declarant has a direct or indirect ownership interest of ten percent (10%) or more.

3.2.2 Regular Assessment: Imposing a Regular Assessment per Lot which is more than twenty percent (20%) greater than the Regular Assessment per Lot for the immediately preceding fiscal year.

3.2.3 Special Assessment: Imposing Special Assessments within a single fiscal year which in the aggregate exceed five percent (5%) of the budgeted gross expenses for said fiscal year.

3.2.4 Capital Expenditures: Incurring aggregate expenditures for capital Improvements to the Common Area in any fiscal year in excess of five percent (5%) of the budgeted gross expenses of the Association for that fiscal year.

3.2.5 Sale of Property: During any fiscal year, selling 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.

3.2.6 Compensation: Paying compensation to Directors or officers of the Association; provided, however, that the Board may cause a Director or officer to be reimbursed for reasonable expenses actually incurred in carrying on the business of the Association.

3.2.7 Vacancies on Board: Filling a vacancy on the Board created by removal of a Director.

3.3 INSURANCE: The Board shall obtain and maintain insurance as provided in this Section.

3.3.1 General Provisions and Limitations: All insurance policies shall be subject to and, where applicable, shall contain the following provisions and limitations:

(a) Underwriter: All policies shall be written with a company legally qualified to do business in the State of California and holding a rating of A-XII or better in the financial category as established by Best's Insurance Reports, if such a company is available, or, if not available, the best rating possible or its equivalent.

(b) Named Insured: Unless otherwise provided in this Section, the named insured shall be the

Association or its authorized representative, as a trustee for the Members. However, all policies shall be for the benefit of Owners and their Mortgagees, as their interests may appear.

(c) Certificate of Insurance: If reasonably available, provision shall be made for the issuance of a certificate of insurance to each Owner and his Mortgagee which shall specify the amount of such insurance attributable to the particular Owner's Lot.

(d) Authority to Negotiate: Exclusive authority to adjust losses under policies obtained by the Association shall be vested in the Board; provided, however, that no Mortgagee having an interest in such losses may be prohibited from participating in any settlement negotiations related thereto.

(e) Contribution: In no event shall the insurance coverage obtained and maintained by the Association be brought into contribution with insurance purchased by Owners or their Mortgagees.

(f) General Provisions: To the extent possible, the Board shall make every reasonable effort to secure insurance policies providing for the following:

(i) A waiver of subrogation by the insurer as to any claims against the Board, the Manager, the Owners and their respective servants, agents and guests;

(ii) A waiver by the insurer of its right to repair and reconstruct instead of paying cash;

(iii) That no policy may be cancelled, invalidated or suspended on account of the acts of any one or more individual Owners;

(iv) That no policy may be cancelled, invalidated or suspended on account of the conduct of any Manager, Director, officer, or employee of the Association without prior demand in writing delivered to the Association requiring remedying of the defect and allowing a reasonable time within which the defect may be cured by the Association, its Manager, any Owner or Mortgagee;

(v) That any "other insurance" clause in any policy excludes individual Owners' policies from consideration;

(vi) That no policy may be cancelled or substantially modified without at least ten (10) days' prior written notice to the Association and to each First Mortgagee listed as a scheduled holder;

and (vii) An agreed amount endorsement;

(viii) An inflation guard endorsement.

(g) Term: The period of each policy shall not exceed three (3) years, provided the policy permits short rate cancellation by the insureds.

(h) Annual Review: The Board shall review the adequacy of all insurance at least once every year. At least once every three years, the review shall include a replacement cost appraisal of all insurable Common Area Improvements and Residences without respect to depreciation. The Board shall adjust the policies to provide coverage and protection that is customarily carried by prudent owners of similar property in the area in which the Project is situated.

(i) Deductible: The policy may contain a reasonable deductible and the amount of the deductible shall be added to the face amount of the policy in determining whether the insurance equals replacement cost.

(j) Additional Insurance by Member: Any Member may obtain additional insurance coverage which the Member considers necessary or desirable to protect himself or his Residence at his own expense; provided, however, that no Owner shall be entitled to exercise his right to maintain insurance coverage in a manner so as to decrease the amount which the Association, on behalf of all Owners and their Mortgagees, may realize under any insurance policy which the Association may have in effect at any time. Each Member is also responsible for obtaining liability insurance for his Lot and insurance for his own personal property at his own expense.

3.3.2 Types of Coverage: At least the following kinds and amounts of insurance shall be obtained:

(a) Property Insurance: A policy or policies of all risk property insurance for all insurable Common Area Improvements, including fixtures and building service equipment, and all Residences against loss or damage by fire or other casualty, in an amount equal to at least

ninety percent (90%) of the current full replacement cost (without respect to depreciation) of the Common Area and all Residences, and exclusive of land, foundations, excavation and other items normally excluded from coverage. A replacement cost endorsement shall be part of the policy.

(b) Liability Insurance: A combined single limit policy of public liability insurance in an amount not less than One Million Dollars (\$1,000,000.00) covering the Common Area and all damage or injury caused by the negligence of the Association, the Board or any of its agents or the Members against any liability to the public or to any Member incident to the use of or resulting from any accident or intentional or unintentional act occurring in or about any Common Area. If available, each policy shall contain a cross liability endorsement in which the rights of the named insured shall not be prejudiced with respect to any action by one named insured against another named insured.

(c) Worker's Compensation: Worker's compensation insurance to the extent necessary to comply with all applicable laws of the State of California or the regulations of any governmental body or authority having jurisdiction over the Project.

(d) Fidelity Bond: A fidelity bond naming the Board, the Members, the Association and such other persons as a majority of the Members may designate as obligees, in an amount equal to at least one-fourth (1/4) of the total sum budgeted for the Current Operation Account and Reserve Account for the current fiscal year. The fidelity bond shall contain a waiver of any defense based on the exclusion of persons serving without compensation.

(e) Directors and Officers: Errors and omissions insurance covering Directors and officers, if reasonably available, in types and amounts as the Board determines to be appropriate.

(f) Other Insurance: Other types of insurance as the Board determines to be necessary to fully protect the interests of the Members.

### 3.4 FINANCIAL STATEMENTS; BOOKS AND RECORDS:

#### 3.4.1 Financial Statements:

(a) Initial Six Month Statement: The Board shall prepare a balance sheet and an operating statement for the period ending on the last day of the sixth

(6th) month from the date Regular Assessments were initially levied. Both shall be distributed to each Member within sixty (60) days after that date. The operating statement shall include a schedule of assessments received and receivable, identified by the Lot number and the name of the Member(s) assessed.

(b) Annual Report: Within one hundred twenty (120) days after the close of each fiscal year, the Members shall receive an annual report consisting of the following: (i) a balance sheet as of the end of the fiscal year; (ii) an operating (income) statement for the fiscal year; (iii) a statement of changes in financial position for the fiscal year; and (iv) any information required to be reported under Section 8322 of the California Corporations Code. If the report is not prepared by an independent accountant, it shall be accompanied by the certificate of an authorized officer of the Association stating that the statements were prepared without independent audit or review from the books and records of the Association. Any annual report prepared for a fiscal year in which the gross income to the Association exceeds seventy-five thousand dollars (\$75,000.00) shall be reviewed in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy and a copy of such review shall be distributed as part of the annual report.

(c) Assessment Enforcement Policy: The Board shall annually distribute, within sixty (60) days prior to the beginning of the fiscal year, a statement of the Association's policies and practices in enforcing its remedies against Owners for defaults in the payment of Regular and Special Assessments, including the recording and foreclosing of liens against Owners' Lots.

3.4.2 Books and Records: The Board shall cause a complete record of all of its acts and corporate affairs to be kept and shall present a statement to the Members at the annual meeting of the Association or at any special meeting if the statement is requested in writing by one-fourth (1/4) of the Class A Members. All books, records and papers of the Association, including minutes of meetings of the Board, Association and committees of the Association, and the Project Documents shall be available for inspection and copying by any Member or his duly appointed representative during reasonable business hours. The Board shall establish rules regarding:

(a) Notice to be given to the custodian of the records by a Member desiring to make the inspection;

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

(c) Payment for costs of making copies of documents requested by a Member.

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

3.4.3 Distribution of Project Documents:  
Within ten (10) days of a written request by a Member, the Association shall provide to the Member current copies of the Project Documents. A charge for the copies may be made by the Association, not to exceed the reasonable costs of preparation, reproduction and mailing.

3.4.4 Statement of Outstanding Charges:  
Within ten (10) days of a written request by a Member, the Association shall provide to the Member a written statement which sets forth the amounts of delinquent assessments, penalties, attorneys' fees and other charges against a Lot. A charge for the statement may be made by the Association, not to exceed the reasonable costs of preparation and reproduction of the statement.

3.5 RULES: The Board may propose Rules necessary for the management of the Project. The Rules may concern any subject within the jurisdiction of the Association. To the extent deemed necessary in order to preserve the benefits of the Project, the Rules may establish architectural controls and may govern the use of the Common Area and Lots by Members or their Invitees. The Rules may not discriminate between Members and tenants of Members. Rules may be adopted by either of the following procedures: (i) by written consent of a majority of the total voting power of the Association; or (ii) by a vote of fifty-one percent (51%) of a quorum of the total voting power of the Association present in person or by proxy at a meeting. After adoption, a copy of the Rules shall be furnished to each Member. Members shall be responsible for distributing the Rules to their tenants.

3.6 MANAGER: The Board may appoint or hire any qualified person or entity as Manager of the Project. No employment contract with a Member shall be for a period longer than one (1) year except as provided in Section 3.2.1. Except as expressly prohibited, the Board may delegate to the Manager any of its duties, powers or functions,

including the authority to deposit or withdraw funds from the accounts of the Association. The Manager may additionally be authorized to establish a common trustee account for the deposit of assessments collected. If a Manager is not designated, the President shall act as Manager. Directors shall not be liable in excess of any insurance coverage provided by the Association for any omission or improper exercise by any accountant, attorney or Manager of any duties, powers or functions so delegated.

3.7 LICENSED PARKING AND/OR STORAGE: The Association may grant a license to an Owner for the exclusive use of any storage or parking area which has not been granted as an exclusive easement. The Association may charge a rental fee for any license. The Association may also designate unassigned parking areas for guest parking or for use by residents of the Project on a first come first served basis.

3.8 ENFORCEMENT OF BONDED OBLIGATIONS: When Common Area Improvements have not been completed prior to the issuance of the original Public Report to which the Common Area is subject and the Association is the obligee under a bond or other arrangement ("Bond") to secure performance of the commitment of Declarant to complete the Improvements, the following provisions shall apply to initiating action to enforce the obligations of Declarant and the surety under the Bond.

3.8.1 Action by Board: The Board shall consider and vote on the question of action by the Association to enforce the obligations under the Bond with respect to any Improvements for which a notice of completion has not been filed within sixty (60) days after the completion date specified for that Improvement in the planned construction statement appended to the Bond. If the Association has given a written extension for the completion of any Common Area Improvements, the Board shall consider and vote whether to take action if a notice of completion has not been filed within thirty (30) days after the expiration of the most recent extension.

3.8.2 Action by Members: If the Board decides not to act or fails to initiate action to enforce bonded obligations, then upon receipt by the Board of a petition for a special meeting signed by Members representing not less than five percent (5%) of the total voting power of the Association, the Board shall call a special meeting of the Members. If the Board has failed to initiate action, the Members shall determine whether they wish to initiate action. If the Board has decided not to initiate action,

the Members shall determine whether to override the Board's decision. The meeting shall be held not less than thirty-five (35) nor more than forty-five (45) days after receipt of the petition by the Board. At the meeting, the vote of fifty-one percent (51%) of the total voting power of the Association residing in Members other than Declarant to take action to enforce the obligations under the Bond shall be deemed to be the decision of the Association. The Board shall thereafter implement the decision by initiating and pursuing appropriate action in the name of the Association.

**3.9 DEDICATION AND EASEMENTS:** With the consent of seventy-five percent (75%) of the total voting power of the Association and subject to Section 3.2.5, the Association shall have the power to (i) dedicate any of the Common Area to an appropriate public authority for public use or (ii) grant and convey to any third party easements and licenses for use and rights of way in, on, over and under any Common Area.

**3.10 NOTICE AND HEARING:**

**3.10.1 Procedure:** If a Member appears to be in violation of any provision of the Project Documents and the provisions of any of the Project Documents require that Notice and Hearing be provided, the Board shall give written notice to the Member specifying the nature of the violation (and providing any other appropriate information) and stating the time, date and place that the Member will have an opportunity to be heard by the Board. If the Member's failure to correct a violation results in the expenditure of funds by the Association to correct the violation, the notice shall also state that the Board may vote to levy a Reimbursement Assessment if the Board finds that a violation has occurred. Written notice shall be given at least fifteen (15) days prior to the date set for the hearing and may be delivered either personally or by mail. If delivery is made by mail, it shall be deemed to have been delivered seventy-two (72) hours after it has been deposited in the United States mail, first class postage prepaid, addressed to the Member at the address given by the Member to the Board for the purpose of service of notice or to the address of the Member's Lot if no other address has been provided. Any address may be changed from time to time by giving written notice to the Board.

**3.10.2 Determination:** After the hearing has taken place, the Board shall (i) determine whether a violation has occurred and, if so, may impose a Reimbursement Assessment which shall become effective not less than five (5) days after the date of the hearing; or (ii) take such

other action as may be appropriate. The determination of the Board shall be final. However, nothing herein shall be construed to prevent the Board from making any emergency repairs or taking any other emergency action it deems necessary and subsequently providing Notice and Hearing.

3.11 TAX EXEMPT STATUS: The Board shall cause any annual election for tax-exempt status required under federal or state law to be filed timely and shall cause the Association to comply with the statutes, rules and regulations adopted by federal and state agencies pertaining to such exemptions.

#### ARTICLE IV

##### VOTING

4.1 TWO-CLASS VOTING: Until the conversion of Class B membership to Class A membership as provided in the Declaration, there shall be two (2) classes of Members.

4.1.1 Class A: Only one (1) vote for each Lot owned by a Class A Member(s) may be cast. The vote for each Lot shall be cast as a majority of co-Owners of the Lot shall determine. Any vote cast by a single Member shall be deemed the authorized vote for that Lot. If the majority of co-Owners present in person or by proxy at a meeting cannot agree as to how to cast the vote for the Lot, no vote shall be cast for that Lot. The power to cast a particular Member's vote may be exercised by (i) the Member's conservator; (ii) the guardian of his estate; (iii) the parent(s) entitled to custody of a Member if the Member is a minor; or (iv) the executor or administrator of a deceased Member's estate if the Member's interest in the Lot is subject to administration in his estate.

4.1.2 Class B: Three (3) votes for each Lot owned by a Class B Member(s) may be cast.

4.1.3 Accrual of Voting Rights: Voting rights shall accrue to an Owner once the Regular Assessment has been levied against the Owner's Lot, but in no event before that time.

4.2 CONVERSION OF CLASS B MEMBERSHIP: Upon the conversion of Class B membership to Class A membership, but while Declarant still owns one or more Lots in the Project, each provision of the Project Documents which requires approval by each class of Members shall instead require: (i) the approval of a majority of all Members and (ii) the approval of a majority of all Members other than Declarant.

After Declarant no longer owns a Lot in the Project, each provision of the Project Documents which requires the approval of a majority of each class of Members shall instead require the approval of a majority of all Members.

4.3 PROXIES: Each Member may vote in person or by proxy. Each proxy shall be in writing, signed and dated by the Member and filed with the Secretary of the Association. Every proxy shall be revocable and shall automatically cease upon actual notice to the Association of the conveyance by the Member of his interest in his Lot or the death or judicially declared incompetence of the Member. No proxy shall be valid after eleven (11) months from the date of its execution unless otherwise specifically provided in the proxy. Votes represented by proxies shall be counted in determining whether a quorum exists at a meeting.

4.4 CUMULATIVE VOTING: Cumulative voting applies only when electing or removing Directors. Class A Members shall be entitled to cast a number of votes equal to the number of Directors to be elected multiplied by the number of Lots owned. Class B Members shall be entitled to cast a number of votes equal to the number of Lots owned multiplied by three multiplied by the number of Directors to be elected. Every Member may cumulate his votes and give them to a single candidate or distribute them among as many candidates as he thinks fit, as long as the name of any candidate for whom the Member casts cumulated votes has been put into nomination prior to the commencement of voting and the Member announces his intention to cumulate votes prior to voting. If one Member announces his intention to cumulate votes, all Members may cumulate votes.

## ARTICLE V

### DIRECTORS AND OFFICERS

5.1 GENERALLY: The affairs of the Association shall be managed by a Board of five (5) Directors who shall be Members in good standing, or officers, directors or employees of a Member in good standing, including Declarant. Each Director shall serve from the date appointed or elected until his successor is elected at the next annual meeting. New Directors shall be elected at each annual meeting. The officers of the Association shall be a President, who shall be a Director, a Secretary and a Chief Financial Officer (Treasurer). Each officer shall hold office until his successor is elected unless he resigns, is removed or otherwise is disqualified from serving. The Board may appoint a person to fill a vacancy in any office

and he shall serve the remainder of the term of the officer he replaces.

5.2 ELECTION OF DIRECTORS: The initial Board shall be appointed by Declarant and shall hold office until the first annual meeting of Members. Beginning at the first annual meeting, Directors shall be elected as provided in this Section.

5.2.1 Nomination: Nomination for election to the Board shall be made by a nominating committee. The nominating committee shall consist of a chairman, who shall be a Director, and two or more Members. The committee shall be appointed by the Board and shall be announced at each annual meeting. Members of the nominating committee shall serve from the close of the meeting at which their appointments are announced until the close of the next annual meeting. The nominating committee shall make as many nominations for election to the Board as it determines in its discretion; provided, however, that there must be at least as many nominations as there are vacancies to be filled. Nominations may also be made from the floor.

5.2.2 Election: Election to the Board shall be by secret written ballot. The persons receiving the largest numbers of votes shall be deemed elected. Each Member may cumulate his votes in the manner described in Section 4.4. However, as long as there are two (2) classes of Members, or as long as the majority of the voting power of the Association resides in Declarant, twenty percent (20%) of the Directors shall first be elected separately by a vote of Members other than Declarant. The remaining Directors shall then be elected in the manner described in this Section.

5.2.3 Term of Office: At the first annual meeting, three (3) Directors shall be elected for a term of two (2) years and two (2) Directors shall be elected for a term of one (1) year. Which Directors shall serve one (1) year terms shall be determined by casting lots. Thereafter, each Director elected shall serve a term of two (2) years.

5.3 REMOVAL AND RESIGNATION OF DIRECTORS: Unless the entire Board is removed from office by a vote of the Members, an individual Director shall not be removed prior to the expiration of his term if the number of votes cast against his removal is greater than the sum arrived at by using the following formula:  $X/Y + 1$ , where X equals the total number of votes cast at the election to remove the Director and Y equals the number of Directors authorized to be elected by these Bylaws. However, any Director who has

been elected solely by Members other than Declarant may be removed from office prior to the expiration of his term only by the vote of not less than fifty-one percent (51%) of Members other than Declarant. When voting for the removal of a Director, each Member shall be entitled to cumulate his votes as described in Section 4.4. Any Director may resign by giving written notice to the Board. The resignation shall be effective on the date specified in the notice. Unless otherwise provided in the notice, the acceptance of a resignation shall not be necessary to make it effective.

5.4 ELECTION OF OFFICERS: Officers shall be elected by the Board at the first meeting held after each annual meeting of the Association. The Board may also elect a Vice President and/or such other officers as the affairs of the Association may require. Only a Director may be elected as Vice President. The terms of office shall be prescribed by the Board.

5.5 REMOVAL AND RESIGNATION OF OFFICERS: Any officer may be removed from office by the Board with or without cause. If a Director serving in the office of President or Vice President has been removed pursuant to Section 5.3, he shall also be automatically removed from his position as an officer. Any officer removed by the Board shall not be removed from the position of Director except pursuant to Section 5.3. Any officer may resign at any time by giving written notice to the Board, the President or the Secretary. The resignation shall be effective on the date specified in the notice. Unless otherwise specified in the notice, the acceptance of a resignation shall not be necessary to make it effective.

5.6 DUTIES OF OFFICERS: Officers shall perform the duties described herein and any other duties that may be prescribed by the Board:

5.6.1 President: The President shall (i) preside at all meetings of the Board; (ii) see that orders and resolutions of the Board are carried out; (iii) sign all leases, mortgages, deeds and other written instruments; and (iv) sign all checks and promissory notes.

5.6.2 Vice President: The Vice President, if any, shall act in the place and stead of the President in the event of the President's absence or his inability or refusal to act.

5.6.3 Secretary: The Secretary shall (i) record the votes and keep the minutes of all meetings and proceedings of the Board and the Association; (ii) serve notice

of meetings of the Board and the Association; and (iii) keep appropriate current records showing the Members together with their addresses.

5.6.4 Chief Financial Officer: The Chief Financial Officer shall (i) receive and deposit into appropriate bank accounts all monies of the Association; (ii) disburse funds as directed by resolutions of the Board; (iii) sign all checks and promissory notes of the Association; (iv) keep proper books of account; and (v) prepare or cause to be prepared all budgets and financial statements.

## ARTICLE VI

### MEETINGS OF MEMBERS

6.1 ANNUAL MEETINGS: The first annual meeting of the Association shall be held within forty-five (45) days after the closing of the sale of the Lot which represents the fifty-first (51st) percentile of the total Lots in the Project authorized for sale under the first Public Report for the Project, but in no event later than six (6) months after the date of the closing of the sale of the first Lot in the Project. The second annual meeting of the Association, and every annual meeting thereafter, shall be held during the same month of the year that the first annual meeting was held, with the specific day and time to be determined by the Board. Meetings shall be held within the Project or at a location as close to the Project as possible. The Board shall specify the location of the meeting in the notice for the meeting.

6.2 SPECIAL MEETINGS: A special meeting of the Members must be promptly scheduled by the President, or, if the President refuses or is unable to, by any Director, upon:

6.2.1 A vote of the Board itself; or

6.2.2 Receipt by the Board of a written request for such a meeting signed by Members representing not less than five percent (5%) of the total voting power of the Association. Special meetings of the Members may also be called at any time by the President or the Board.

6.3 NOTICE: Except where the Project Documents require otherwise, written notice of regular and special meetings of the Members shall be given by or at the direction of the Secretary or other person authorized to call the meeting. Notice of each meeting shall be given to each

Member entitled to vote at the meeting and shall be addressed to the Member at either (i) the most recent address appearing on the books of the Association or (ii) the address supplied by the Member to the Association for the purpose of notice. Notices for a meeting called pursuant to Section 6.2.1 shall be personally delivered or mailed first class with postage prepaid at least ten (10) but not more than ninety (90) days before the meeting. Notice by mail other than first class shall be made at least twenty (20) but not more than ninety (90) days before each meeting. Notices for a meeting called pursuant to Section 6.2.2 shall be given at least thirty-five (35) but not more than ninety (90) days after receipt by the Board of the request. Notices of meetings shall specify the place, day and hour of the meeting. Notices of special meetings shall also state the purpose of the special meeting. If mailed, notices shall be deemed to be delivered twenty-four (24) hours after their deposit in the United States mail, first class postage prepaid.

6.4 QUORUM: The presence at the meeting of Members entitled to cast (or of proxies entitled to cast) fifty-one percent (51%) of the total voting power of the Association shall constitute a quorum for any action, except as otherwise provided in the Declaration and these Bylaws. If a quorum is not present or represented at any meeting, a majority of the Members present in person or by proxy shall have the power to adjourn the meeting to another time with no notice other than an announcement at the meeting. The quorum for any reconvened meeting shall be not less than twenty-five percent (25%) of the total voting power of the Association. If a time and place for the reconvened meeting is not fixed by those in attendance at the original meeting or if for any reason a new date is fixed for the reconvened meeting after adjournment, notice of the time and place of the reconvened meeting shall be given to Members in the manner prescribed for regular meetings.

6.5 ACTION WITHOUT MEETING: Any action which may be taken by the vote of Members at a regular or special meeting, except the election of Directors where cumulative voting is a requirement, may be taken without a meeting if done in compliance with the provisions of Section 7513 of the California Corporations Code.

## ARTICLE VII

### MEETINGS OF DIRECTORS

7.1 REGULAR MEETINGS: Regular meetings of the Board shall be held monthly unless the Board determines that

the business to be transacted does not justify monthly meetings. In that event, regular meetings shall be held at intervals determined by the Board but not less frequently than once every six (6) months. Regular meetings shall be held at the time and place fixed by the Board.

**7.2 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 Directors other than the President.

**7.3 NOTICE:** Notice of any regular meeting of the Board shall be given to each Director not less than four (4) nor more than fifteen (15) days prior to the date fixed for such meeting. Notice shall be personally delivered or sent by mail or telegram to each Director at his address as shown in the records of the Association; provided, however, that notice of a meeting need not be given to any Director who signs a waiver of notice or a written consent to the holding of such meeting. The notice shall specify the time and place of the meeting. Notice of any special meeting shall be given in the same manner as notice for a regular meeting, except that notice shall be given to each Director not less than seventy-two (72) hours prior to the date fixed for the meeting. The notice shall specify the purpose of the meeting. If the notice is mailed, it shall be deemed to be delivered twenty-four (24) hours after deposit in the United States mail with first class postage fully prepaid. If notice is given by telegram, notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. The attendance of a Director at the meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting to the transaction of business because the meeting is not lawfully called or convened.

**7.4 QUORUM:** Sixty percent (60%) of the Directors shall constitute a quorum for the transaction of business. Every action taken and every decision made by the Directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board.

**7.5 ACTION WITHOUT A MEETING:** In an emergency, the Directors shall have the right to take any action that may be required for the efficient and expeditious operation and conduct of the Association's business without a meeting if (i) the Board would have the power and authority to act at a meeting and (ii) the written consent of all Directors to such action is first obtained. Written notice of the action taken without a meeting must be posted in a conspicuous place within the Common Area within three (3) days after the

consent of all Directors is obtained. Any action taken by written consent shall have the same effect as if it were taken at a duly noticed meeting of the Board.

7.6 PARTICIPATION BY MEMBERS: The Secretary shall post a notice of all regular and special Board meetings in a conspicuous place within the Common Area not less than four (4) days prior to the scheduled time of the meeting. All meetings of the Board shall be open to all Members but Members who are not Directors shall have no right to participate in any deliberations or discussions of the Board unless expressly authorized by a vote of the Board. If the nature of the business is first announced in open session, the Board may vote to adjourn and reconvene in executive session to discuss and vote upon personnel matters, litigation in which the Association is or may become involved and orders of business of a similar nature.

## ARTICLE VIII

### INDEMNIFICATION

8.1 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 is or was 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. Terms used in this Article shall have the same meaning as in Section 7237 of the California Corporation Code.

8.2 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.

8.3 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 8.1 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 IX

### CORPORATE REORGANIZATIONS

9.1 CONSOLIDATIONS AND MERGERS: To the extent permitted by law, the Association may participate in mergers and consolidations with other nonprofit corporations organized for the same purposes as this Association, provided that any merger or consolidation must be approved by a majority of the Board and sixty-seven percent (67%) of each class of Members.

9.2 DISSOLUTION OF INCORPORATED ASSOCIATION: If the Association as a corporate entity is dissolved, then without further action or notice, a nonprofit, unincorporated association shall be deemed formed which shall succeed to all the rights and duties of the Association. The affairs of the unincorporated association shall be governed by the laws of the State of California and, to the extent not inconsistent therewith, by the Project Documents as though they had been prepared for an unincorporated association.

## ARTICLE X

### AMENDMENTS

10.1 PROCEDURE: Except as provided in the Declaration, these Bylaws may be amended at a meeting by fifty-one percent (51%) of a quorum of each class of Members present in person or by proxy. If only one (1) class of Members is in existence and Declarant is still a Member, then amendments may be made at a meeting by a vote of (i) fifty-one percent (51%) of Members other than Declarant and (ii) fifty-one percent (51%) of a quorum of all Members. Once Declarant is no longer a Member, amendments may be made at a meeting by fifty-one percent (51%) of a quorum of Members.

10.2 RECORDS OF AMENDMENTS: Whenever an amendment or a new Bylaw is adopted, it shall be added in the appropriate place in the Association's minute book. If any Bylaw repeals any portion of these original Bylaws, either the date of the meeting at which the Bylaws or portion thereof was repealed or the date written consent was filed with the Secretary shall be stated therein.

#### ARTICLE XI

##### CONFLICT

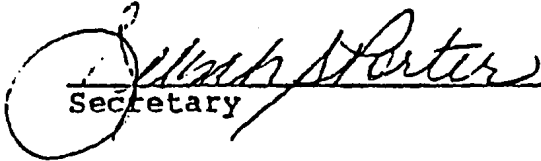
In the case of any conflict between the Articles and these Bylaws, the Articles shall control. In the case of any conflict between the Declaration and these Bylaws, the Declaration shall control.

CERTIFICATION

I, the undersigned, do hereby certify:

That I am duly elected and acting Secretary of SCOTTSBOROUGH TOWNHOMES HOMEOWNERS' ASSOCIATION, a California nonprofit mutual benefit corporation; and

That the foregoing Bylaws constitute the original Bylaws of the Association, as duly adopted by the Board thereof on the 4th day of June, 1984.

  
Secretary