

BYLAWS
OF
SIERRA HIGHLANDS COMMUNITY ASSOCIATION

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BYLAWS
OF
SIERRA HIGHLANDS COMMUNITY ASSOCIATION,
A California Nonprofit Mutual Benefit Corporation

ARTICLE 1
NAME

1.1 Name. The name of the association is SIERRA HIGHLANDS COMMUNITY 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 Sierra Highlands to be recorded in the Office of the County Recorder of San Diego, California, 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 the Article of the Declaration entitled "Definitions" 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 City of San Diego, County of San Diego, State of California. The Board is hereby granted full power and authority to change said principal office from one location to another within the City of San Diego.

ARTICLE 4
MEMBERS

4.1 Membership: Voting Rights. The qualification for membership, the classes of membership and the voting rights of Members shall be as set forth in the Article of the Declaration entitled "Membership and Voting Rights of the Association," 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 City of San Diego, County of San Diego, in reasonable proximity to the Project, as may be fixed from time to time by resolution of the Board.

4.4 Organizational Meeting. 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 Membership Election (as defined in **Section 5.5** below). 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 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. 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. A special meeting of Members for any purpose may be called at any time by the President, at its discretion, as directed by resolution of a majority of a quorum of the Board, or upon a written request specifying the general nature of the business to be transacted being presented to the Secretary signed by Members representing at least five percent (5%) of the total Voting Power of the Members. Upon receipt of such written request, the Secretary shall promptly cause the notice to be given to the Members entitled to vote in the same manner as required by **Section 4.7**, which 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 request. The notice of any special meeting shall be given within twenty (20) days after adoption of such resolution or receipt of such written request. If notice is not given within twenty (20) days after receipt of the request, the Members requesting the meeting may give notice. 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. Notwithstanding the foregoing, notice of a special meeting to reverse an Operating Rule change must be delivered in accordance with and within the time frame specified in California Civil Code Section 1357.140. Any special meeting called for the purpose of reversing an Operating Rule shall be conducted in accordance with California Civil Code Section 1357.140.

4.7 Notice of Meetings. A written notice of all Members' meetings, regular or special, shall be given by the Board to each Member entitled to vote and to any Mortgagee who has requested in writing that such notice be sent to it, either personally or by first-class, registered or certified mail, or other means of written communication (other than mail) addressed to a Member at the address of the Member appearing on the books of the Association or given by Member to the Association for notice purposes, or if no such address appears or is given, at the place where the principal office of the Association is located, or by publication at least once in a newspaper of general circulation in the county in which the principal office of the Association is located. The notice of a meeting shall set forth the place, date and time of the meeting, and the

general 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 or under these Bylaws, any proper matter may be presented at the meeting for action. The Members' meetings, regular or special, shall be held not less than ten (10) days nor more than thirty (30) days after notice of such meeting is given to the Members.

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

4.9 Quorum. Except as otherwise provided in the Declaration, 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 who are entitled to vote on the business to be transacted shall constitute a quorum. No business other than to adjourn the meeting can be conducted at a meeting of the Members unless a quorum is present. 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 Voting Power. 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 thereat, 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.

4.10 Voting.

4.10.1 Voting of Members regarding each of the following matters shall be by secret ballot in accordance with the requirements of California Civil Code Section 1363.03, regardless whether such statute has yet become operative: (i) an election regarding assessments; (ii) selection of Board members; (iii) amendments to the Governing Documents; and (iv) the

grant of exclusive use easements over Common Area or Association Property pursuant to California Civil Code Section 1363.07.

4.10.2 To the extent (if any) permitted by California law, election to and removal from the Board shall be by cumulative voting as defined in California Corporations Code Section 7615, subject to all applicable requirements of the California Corporations Code and California Civil Code. Each Member shall be entitled to vote, in person or by proxy, as many votes as such Member is entitled to exercise as provided in the Governing Documents 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 Member 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 the 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.

4.11 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, executed by such Member and filed with the Secretary of the Association 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 Board be specifically named in the proxy or written ballot. All proxies shall be revocable at any time by written notice to the Secretary of the Association 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 the Member entitling such Member 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 its executor or administrator where the latter's interest in such property is subject to administration in its estate.

4.12 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 its right to vote to a lessee or tenant actually occupying its 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.

4.13 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 procedures the Association may adopt.

4.14 Majority of Owners. Except as otherwise provided herein, in the Declaration, the Articles or the California Corporations Code, 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.

4.15 Action Without Meeting. Unless otherwise prohibited herein, in the Declaration, the Articles or the California Corporations Code, any action which may be taken at a meeting of the Members except the election of 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 minutes of the proceeding of the Members or, in certain circumstances, by written ballot without a meeting, as set forth in Section of the Declaration entitled "Limitations on Authority of Board."

4.16 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 either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote not present either in person or by proxy, 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 and approvals shall be filed with the Association's records or made a part of the minutes of the meeting.

4.17 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.

4.18 Notice Requirements. Before the Board makes a decision temporarily suspending the membership rights and privileges and/or assessing monetary penalties against any Owner or other person entitled to exercise such rights or privileges for any violation of the Governing Documents or Board resolutions, the aggrieved Owner shall be provided with an opportunity to be heard by the Board, orally or in writing, in accordance with the procedures set forth in California Corporations Code Sections 7341 and California Civil Code Section 1363.

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

(a) 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;

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

(c) to perform all obligations of the Association as provided in the Declaration and these Bylaws.

5.3 Number. Prior to the First Membership Election (defined below), the Board shall consist of five (5) directors appointed by Declarant at the organizational meeting of the Association referred to in **Section 4.4** hereof, which directors need not be Members of the Association.

5.4 Nomination. Nomination for election to the Board may be made by a nominating committee consisting of three (3) persons. To the extent (if any) permitted by California law, nominations may also be made from the floor at each meeting at which directors are to be elected. The nominating committee shall consist of a chairperson, who shall be a director, 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, and shall comply with the Association Rules adopted to implement the requirements of California Civil Code Section 1363.03.

5.5 Election and Term of Office. Directors shall be elected by the Members no earlier than forty-five (45) days and no later than six (6) months after close of escrow for sale of the first Residential Lot in the Project to an Owner other than Declarant ("First Membership Election"). Until the First Membership Election, the Board shall consist of those directors who are appointed by Declarant. Thereafter, election to the Board shall be by secret ballot in accordance with the requirements of **Section 4.10** above. The candidates receiving the highest number of votes shall be deemed elected. The term of office of the directors shall be as set forth below. At the First Membership Election, the Declarant shall designate a majority of the Board and the remaining directors shall be elected by the Class A Members (excluding Declarant) by secret ballot in accordance with the requirements of **Section 4.10** above. (The Class B

Member(s) shall not be entitled to vote for directors at the First Membership Election.) The candidates receiving the highest number of Class A votes shall be deemed elected. The directors appointed by Declarant shall serve for a term of three (3) years and the director(s) elected by the Class A Members shall serve for a term of two (2) years. After the expiration of the initial terms, all directors' terms shall be two (2) years. Successor directors shall be elected annually to replace those directors whose terms expire. Upon expiration of the initial three-year terms of the Declarant-designated directors, all directors shall be elected by the Members. All directors shall hold office until their respective successors are elected. Except as otherwise provided in the Declaration and the Bylaws, elections to the Board shall be in accordance with the provisions of the California Corporations Code and California Civil Code.

5.6 Removal. At any regular or 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 meeting has also been given to said entire Board or any individual director whose removal is to be considered at said 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 appointed by Declarant pursuant to **Section 5.5** or elected by Declarant using its Class B voting power, then no such director shall be removed without the consent of Declarant; provided, further, that the directors appointed by Declarant at the First Membership Election may be removed and replaced by Declarant, in its sole discretion.

5.7 Vacancies.

5.7.1 Generally. Except for a vacancy created by the removal of a director, 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 by the Members; provided, however, that a director appointed by Declarant pursuant to Section 5.5 may be replaced only by Declarant. A vacancy or vacancies shall be deemed to exist in case of the death, resignation or removal of any director, when the Board increases the number of directors but fails 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 in the same election in which an amendment of these Bylaws is voted authorizing an increase in the number of directors.

5.7.2 Declaration of Vacancy. Except for directors appointed by the Declarant, the Board, by a majority vote of the directors who meet all of the required qualifications to be director, may declare vacant the office of any director who fits into any of the following categories:

(a) The director does any of the following:

(i) Fails to attend three (3) consecutive regularly scheduled meetings of the Board or fails to attend more than six (6) meetings of the Board, regular or special, within any twelve (12) month period;

(ii) Fails to comply with a duly approved action of the Board;

(iii) Fails to comply with the Association's Governing Documents, having been provided proper notice and received a due process hearing at which the Board determines that a violation exists; or

(iv) Falls more than three (3) months in arrears in the payment of monthly assessments.

(b) The director engages in any of the following types of behavior:

(i) Receives any type of monetary gain, or other gain such as services, products, gifts or gratuities of a significant value, which have been provided in relation to a director's service on the Board, and which is not disclosed. Disclosure must take place at an open meeting of the Board and be recorded in the minutes. Compensation for services duly approved by the Board and unrelated to duties as a director or officer of the Association, or reimbursement of expenses associated with service to the community do not constitute unethical or detrimental behavior and are permissible;

(ii) Takes any action considered to be grossly detrimental to the general safety, health and welfare of the community and its Members; or

(iii) Addresses fellow directors with abusive language in such a manner that causes distress and emotional harm. Abusive language is any language which causes humiliation or intimidation, or inflicts ridicule, coercion, threats or mental abuse, or other language of a punitive nature, or language which is prejudicial or grossly profane.

5.8 Resignation. If any director tenders its 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 provided, however, that a director appointed by Declarant in connection with the First Membership Election may, at Declarant's election, be replaced only by Declarant. No reduction of the number of directors shall have the effect of removing any director from office prior to the expiration of its term of office.

5.9 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 (2) outstanding classes of membership in the Association, not less than two (2) of the directors (the "specially elected directors") shall be elected solely by the votes of Class A Members other than Declarant. The election of the specially elected directors shall take place along with the regular election of directors and shall comply with the requirements set forth in **Section 5.5** above. Declarant shall not have the right to participate in or vote in such special election (although Declarant or Declarant's

representatives may be present when the votes are counted), 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, 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.

5.10 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 its duties. The Board shall also have the right to hire any consultants as may be deemed necessary and to compensate such consultants; provided that such consultant has no financial interest in Declarant or any individual Board member.

5.11 Organizational Meeting of the Directors. Immediately following the organizational meeting of the Members, the Board shall hold a regular meeting for the purpose of organization, appointment of officers and the transaction of other business. Notice of such meeting is hereby dispensed with.

5.12 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 as soon as possible thereafter. 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 and notice of regular meetings need not be given if the time and the place of the regular meetings are fixed by the Board.

5.13 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. The notice shall specify the time and place of the meeting and the nature of any special business to be considered and the time and place of the meeting, which shall not be less than four (4) days from the date of such notice if given by first class mail or forty-eight (48) hours from the date of such notice if the notice is given by any other method set forth below; 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 given by first class mail, personal delivery or overnight courier, telephone (including a voice message system or other system of technology designed to record and communicate messages), facsimiles, electronic mail or other electronic means to all directors at the address, telephone or facsimile number or electronic mail address appearing on the books of the Association as given by the director for purpose of notice.

5.14 Emergency Meetings. An emergency meeting of the Board may be called by the President, Vice President or the Secretary 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 5.19** of these Bylaws. The notice for such emergency meeting shall be given to the directors by personal delivery, telephone (including a voice message system or other system with technology designed to record and communicate messages), facsimiles, electronic mail or other electronic means at any time prior to the emergency meeting.

5.15 Presiding Officer. The President of the Association shall be the chairperson of the Board and shall preside at all meetings of the Board.

5.16 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 is 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.

5.17 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. 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.

5.18 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.

5.19 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 5.14** above, not less than four (4) days prior to the scheduled time of the meeting. Regular, special and emergency 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 or the Member's payment of assessments as specified in California Civil Code Sections 1367 and 1367.1, 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 immediately following Board meeting that is open to the entire membership. If the Board meets to decide upon the adoption, change or amendment of an Operating Rule, the Board shall comply with the requirements of California Civil Code Section 1357.130.

5.20 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 of the 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.

5.21 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 Association Property within three (3) days after the written consents of all directors have been obtained.

5.22 Committees. Subject to any contrary provisions of the Declaration, the Articles 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 Governing Documents; (b) damage to the Association Property; (c) damage to any Residential Lot or other separate interest which the Association is obligated to maintain or repair; or (d) damage to any Residential Lot or other separate interest which arises out of, or is integrally related to, damage to the Association Property or any Residential Lot or other separate interest that the Association is obligated to maintain or repair. Notwithstanding the foregoing, no representative of Declarant on the Board shall vote on the initiation of any claim under California Civil Code Section 895 et seq., such

that from and after the First Membership Election, Declarant shall have no control over the Association's ability to decide whether to initiate a claim under such statutory provisions and in the event of such a vote, the affirmative vote of the two non-Declarant representatives on the Board shall be binding so long as quorum of the Board is present at any meeting where such vote is taken.

ARTICLE 6 OFFICERS

6.1 Enumeration of Officers. The officers of the Association shall be a President and Vice President, both of whom 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 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.

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 perform such other duties as may be prescribed by the Board or these Bylaws.

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

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 its 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 shall require the signatures of either:

- (a) two (2) directors; or
- (b) 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 its duties.

ARTICLE 7
INDEMNIFICATION

7.1 Generally. A director, officer, committee member, employee or other “agent” of the Association who was or is a party to or is threatened to be made a party to any “proceeding” (including a proceeding by or on behalf of the Association) because he or she is or has been a director, officer, committee member, employee or “agent” of the Association shall be indemnified, defended and held harmless by the Association against all expenses, judgments, fines, settlements or other amounts actually and reasonably incurred in connection with the “proceeding,” action or suit to the maximum extent permitted by applicable law, including, pursuant to the provisions of California Civil Code Section 1365.7. Terms used in this Article shall have the same meaning as in Section 7237 of the California Corporations Code or 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 for indemnification 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 for indemnification set forth in the California Nonprofit Mutual 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 any matters with respect to the authorization 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 a written 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 the Article of the Declaration entitled “Assessments,” each Member is obliged to pay to the Association Regular Assessments, Special Assessments, Capital Improvement Assessments and Enforcement 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. The Association shall make available for inspection and copying by any Member, the Member's duly appointed representative, or any Mortgagee those Association records required to be made available by California Civil Code Section 1365.2, on the terms and subject to the conditions set forth in California Civil Code Section 1365.2. 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. At the time the pro forma 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:

(a) Notice to be given to the custodian of the records of the Association by the Member, representative or Mortgagee desiring to make an inspection;

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

(c) Payment of the cost of reproducing copies of documents requested by a Member or by a representative or Mortgagee.

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 Board of the Association shall regularly prepare, review and, where required, distribute the following financial and other information in accordance with the requirements of California law:

9.2.1 Budgets. A pro-forma operating statement (budget) for each Fiscal Year that contains all information required by California Civil Code Section 1365 shall be distributed to all Members of the Association within the time frame required by California Civil Code Section 1365. In lieu of distributing the pro-forma operating statement to all Members, the Board may elect to distribute a summary of such statement to the Members if it complies with the requirements set forth in Civil Code Section 1365(c).

9.2.2 Review of Accounts. The Board shall do the following not less frequently than quarterly, as required by California Civil Code Section 1365.5. To the extent this Section is inconsistent with California Civil Code Section 1365.5, the provisions of California Civil Code Section 1365.5 shall control:

(a) Cause a current reconciliation of the Association's maintenance and operation account to be made and review the same;

(b) Cause a current reconciliation of the Association's reserve account to be made and review the same;

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

(d) Review the most current account statements prepared by the financial institution where the Association has its maintenance and operation account and reserve account; and

(e) Review an income and expense statement for the Association's maintenance and operation account and reserve account.

9.2.3 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; (d) any information required to be reported under Section 8322 of the California Corporations Code. 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; and (e) a notice of any requirements for Association approval of physical changes and other improvements to their Residential Lot. The notice shall describe the types of changes that require approval and shall include a copy of the procedure used to review and approve or disapprove a proposed change, pursuant to California Civil Code Section 1378.

9.2.4 Association Policies Regarding Assessments and Foreclosure. 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, as required by California Civil Code Section 1365.1.

9.2.5 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.

9.2.6 Insurance Summary. The Board shall distribute to Members the summary of the Association's insurance policies required by California Civil Code Section 1365(e) within the time period required by that statute.

9.2.7 Additional Information. The Board shall prepare, review and distribute such additional information and reports as, when and in the manner required by California law.

9.3 Reserves.

9.3.1 Availability of Reserve Fund Information. The Association shall prepare and provide to Members a document entitled "Assessment and Reserve Funding Disclosure Summary" ("Reserve Summary") in compliance with California Civil Code Section 1365.2.5.

9.3.2 Transfer of Reserve Funds. As provided in Section 1365.5 of the California Civil Code, 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 (including any separate reserves maintained for Cost Centers.) However, the Board may authorize a temporary transfer of moneys from a reserve fund to the Association's general operating fund to meet short-term cash flow requirements or other expenses, if the Board has provided notice of the intent to consider the transfer in a notice of meeting, which shall be provided as specified in **Section 5.19**. The notice shall include the reasons the transfer is needed, some of the options for repayment, and whether a Special Assessment may be considered. If the Board authorizes the transfer, the Board shall issue a written finding describing the reasons why a transfer from reserves to operating funds is necessary and how and when the moneys 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, after giving the same notice required for considering a transfer, and 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 subject to the limitation imposed by California Civil Code Section 1366. 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 moneys 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 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.

9.3.3 Reserve Study. As part of the study of the reserve account requirements pursuant to California Civil Code Section 1365(e), the Board shall, at least once every three

(3) years, cause to be conducted a reasonably competent and diligent visual inspection of the accessible areas of the major components which the Association is required by the Declaration to repair, replace, restore, or maintain if the current replacement value of the major components is equal to or greater than one-half (1/2) of the Association's gross budget which excludes the Association's reserve account for that period. The Board shall review this study, or cause it to be reviewed, annually and shall consider and implement necessary adjustments to the Board's analysis of the reserve account requirements as a result of that review. Separate studies shall be completed for any Cost Centers. The study shall, at a minimum, include those items required by California Civil Code Section 1365.5(e).

As used in this **Section 9.3** "reserve accounts" means (a) 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; and (b) the funds received and not yet expended or disposed from either a compensatory damage award or settlement to the Association from any person or entity for injuries to property, real or personal, arising from any construction or design defects, which funds shall be separately itemized from funds described in clause (a). In addition, as used in this **Section 9.3**, "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.

9.4 Managing Agent's Handling of Association Fund. The managing agent, as set forth in the Articles of Incorporation, if any, shall handle any Association funds in compliance with Section 1363.2 of the California Civil Code. In addition to the foregoing, all Association funds relating to any Cost Center or any Cost Center Budget shall not be commingled with other Association Funds. At no time shall any Association funds relating to any Cost Center be used for general Association purposes.

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"). 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 the approval of a majority of the Voting Power of the Association and a majority of the votes of Members other than the Declarant. The vote on a proposed amendment to these Bylaws shall be held by secret ballot in accordance with the procedures set forth in California Civil Code Section 1363.03.

10.2 Amendment of Specific Provisions. Notwithstanding **Section 10.1** and this **Section 10.2**, 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, to the extent that said Section is applicable.

10.4 Amendment by Board. These Bylaws may be amended by a majority of the entire Board, (i) at any time before the close of escrow for the sale of the first Residential Lot, or (ii) if the amendment is within the Board's power to adopt without Owner approval pursuant to the California Corporations Code and either (a) the proposed amendment conforms the Bylaws to California law or the requirements of VA, FHA, DRE, FNMA, GNMA or FHLMC, or (b) the proposed amendment corrects a typographical error in the Bylaws.

10.5 Further Approvals Required. Notwithstanding anything to the contrary contained in these Bylaws, **Sections 5.3, 5.5, 5.7, 5.8, 5.9, 5.13 and 5.23** of these Bylaws shall not be amended without the vote or approval by written ballot of at least (a) ninety percent (90%) of the Voting Power of the members of the Association other than Declarant, and (b) at least ninety percent (90%) of the Mortgagees.

ARTICLE 11 GENERAL PROVISIONS

11.1 Checks, Drafts, Etc. Except as otherwise set forth herein, all checks, drafts, or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the Association, shall be signed or endorsed by the President and Chief Financial Officer or by such persons and in such manner as, from time to time, shall be determined by resolution of the Board.

11.2 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.

11.3 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.

11.4 Singular Includes Plural. Wherever the context of these Bylaws requires same, the singular shall include the plural, the masculine shall include the feminine and the term "person" shall include a corporation or other entity, as well as a natural person.

11.5 Conflicting Provisions. In the case of any conflict between any provisions of the Declaration and these Bylaws, the 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.

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

11.7 Proof of Membership. If requested by the 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 it to membership. Such deed or policy shall be deemed conclusive in the absence of a conflicting claim based on a later deed or policy.

11.8 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.

11.9 Reserves. Any amounts collected by or paid to the Association in excess of operational needs shall be, at the election of the Board (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) refunded in whole or in part or (c) 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.

11.10 Statutory References. All references in these Bylaws to various statutes, codes, regulations, ordinances and other laws shall be deemed to include those laws in effect as of the date of these Bylaws and any successor laws as may be amended from time to time.

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CERTIFICATE OF SECRETARY

KNOW ALL MEN BY THESE PRESENTS:

The undersigned, Secretary of Sierra Highlands Community 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 September 6, 2007 and that they now constitute said Bylaws.

Secretary

