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BY-LAWS OF
RIM ROCK RANCH VINEYARD ESTATES
OWNERS' ASSOCIATION

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BY-LAWS
OF
RIM ROCK RANCH VINEYARD ESTATES
OWNERS' ASSOCIATION

ARTICLE I

NAME, PRINCIPAL OFFICE AND BY-LAWS
APPLICABILITY AND ACCEPTANCE

Section 1 Name: The name of the (unincorporated) association is Rim Rock Ranch Vineyard Estates Owners' Association, hereinafter referred to as the "Association."

Section 2 Principal Office: The principal office of the Association shall be located in the town of Middletown, in the unincorporated area of Lake County, State of California.

Section 3 By-Laws Applicability: The provisions of these By-Laws are applicable to the project. The term "project" as used herein shall include the land and all structures and improvements thereon. All present and future owners, tenants, future tenants or their employees, or any other person that might use the facilities of the project in any manner, are subject to the regulations set forth in these By-Laws and to the recorded or to be recorded Declaration of Covenants, Conditions, and Restrictions applicable to the property or any portion thereof referred to as the "Declaration" herein.

Section 4 By-Laws Acceptance: The acceptance of a deed to any Lot or entering into occupancy or use of any Lot in the project shall constitute (1) acceptance and ratification of these By-Laws and the Declaration and (2) an agreement to be bound by and comply with the provisions of these By-Laws and the Declaration as any or all may, from time to time, be amended.

ARTICLE II:

MEMBERS

Section 1 Member Defined: Every owner of a Lot shall be a member of the Association. Upon termination of ownership, an owner's membership shall automatically terminate and be transferred to the new owner of the Lot. The foregoing is not intended to include persons or entities who hold an interest merely as security for the performance of an obligation. Membership shall be appurtenant to and may not be separated from ownership of any Lot which is subject to assessment by the Association.

Section 2 Proof of Membership: No person or persons shall exercise the rights of membership until satisfactory proof has been furnished to the Secretary of the Association of qualification as a member pursuant to the terms of the Declaration and these By-laws. Such proof may consist of a copy of a duly executed and acknowledged grant deed or title insurance policy showing said person qualified in accordance therewith or an executed contract of sale in the case of a contract vendee, which said deed, policy or contract shall be deemed conclusive in the absence of a conflicting claim based upon a later deed, policy or contract.

Section 3 Membership Inseparable from Ownership: "Owners" (as defined in the Declaration), including the Declarant, shall be entitled to exercise the rights and privileges of membership in the Association. No person other than an Owner may be a member of the Association. Not more than one (1) membership may be issued to any member. Membership shall be appurtenant to and may not be separated from ownership of any Lots which are subject to assessment by the Association.

Section 4 Responsibilities of Members: The members have the ultimate responsibility for the administration of the project. Except as day to day responsibility, as specified by the Declaration and these By-Laws, is delegated to the Board of Directors, or committees, all members share equally in the responsibility for the appropriate operation of the project.

Section 5 Voting Rights: The Association shall have two classes of voting membership, as set forth in the Declaration, Article III, Section 4.

Section 6 Voting Requirements: Any action taken by the Association (with the exception of enforcing a bond) which must have the approval of the members other than the Declarant shall expressly require the vote or written assent of fifty-one percent (51%) of each class of membership during the time that there are two outstanding classes of membership. When only a single class exists after conversion of Class B to Class A, any action by the Association which is subject to the approval of members other than the Declarant shall require the vote or written assent of fifty-one percent (51%) of the total voting power of the Association as well as the vote or written assent of fifty-one percent (51%) of the total voting power of members other than the Declarant.

Section 7 Majority of Owners: As used in these By-Laws, the term "majority of owners" shall mean those owners holding fifty-one percent (51%) of the votes in accordance with the provisions of Section 5 of this Article II. During that period of time that there are two outstanding classes of membership, "majority of owners" shall mean those owners holding fifty-one percent (51%) of the votes of each class of membership, except in respect to action required for the enforcement of obligations of the Declarant.

Section 8 Record Dates:

A. Record Dates Established by the Board: For the purpose of determining which Members are entitled to receive notice of any meeting, vote, act by written ballot without a meeting, or exercise any rights with respect to any other lawful action, the Board may fix, in advance, a "record date" and only Members of record on the date so fixed are entitled to receive notice, vote, or to take action by written ballot or otherwise, as the case may be, notwithstanding any transfer of any membership on the books of the Association after the record date. The record dates established by the Board pursuant to this section shall be as follows:

(1) **Record Date for Notice of Meetings:** In the case of determining those Members entitled to notice of a meeting, the record date shall be no more than ninety (90) nor less than ten (10) days before the date of the meeting;

(2) **Record Date for Voting:** In the case of determining those Members entitled to vote at a meeting, the record date shall be no more than sixty (60) days before the date of the meeting;

(3) **Record Date for Action by Written Ballot Without Meeting:** In the case of determining Members entitled to cast written ballots, the record date shall be no more than sixty (60) days before the day on which the first written ballot is mailed or solicited; and

(4) **Record Date for Other Lawful Action:** In the case of determining Members entitled to exercise any rights with respect to other lawful action, the record date shall be no more than sixty (60) days prior to the date of such other action.

B. Failure of Board to Fix a Record Date: If the Board, for any reason, fails to establish a record date, the following rules shall apply:

(1) Record Date for Notice of Meetings: The record date for determining those Members entitled to notice of a meeting shall be the business day preceding the day on which notice is given, or, if notice is waived, the business day preceding the day on which the meeting is held.

(2) Record Date for Voting: The record date for determining those Members entitled to vote at a meeting of Members shall be the day of the meeting, or in the case of an adjourned meeting, the day of the adjourned meeting.

(3) Record Date for Action by Written Ballot Without Meeting: The record date for determining those Members entitled to vote by written ballots on proposed Association actions without a meeting, when no prior action by the Board has been taken, shall be the day on which the first written ballot is mailed or solicited. When prior action of the Board has been taken, it shall be the day on which the Board adopts the resolution relating to that action.

(4) Record Date for Other Lawful Action: The record date for determining those Members entitled to exercise any rights with respect to any other lawful action shall be no more than sixty (60) days prior to the date of such other action.

(5) "Record Date" Means as of Close of Business: For purpose of this subparagraph B. a person holding a membership as of the close of business on the record date shall be deemed the Member of record.

ARTICLE III

MEMBERSHIP MEETINGS

Section 1 Annual Meetings: Regular meetings of members of the Association shall be held not less frequently than once each calendar year. The first meeting of the members, whether a regular or special meeting, shall be held no later than six (6) months after closing the sale of the first Lot sold pursuant to the public report issued for the Rim Rock Ranch Vineyard Estates project.

Subsequent annual meetings shall be held within two weeks of the same day of the week of the same month each year. At such meetings there shall be elected by ballot of the owners a Board of Directors in accordance with the requirements of Sections 1 and 3 of Article IV of these By-Laws. The owners may also transact such other business of the Association as may properly come before them.

Section 2 Special Meetings: Special Meetings of the members may be called at any time by the president, a vote of the Board of Directors itself, or by written request signed by members representing five percent (5%) of the total voting power of the Association.

Section 3 Notices: Written notice of each meeting of the members shall be given by, or at the direction of the secretary or person authorized to call the meeting, by mailing a copy of such notice, postage prepaid, at least ten (10) but not more than ninety (90) days before such meeting to each member entitled to vote, addressed to the member's address last appearing on the books of the Association, or supplied by such member of the Association for the purpose of notice. Such notice shall specify the place, date, and hour of the meeting, and those matters the Board intends to present for action by the members, but except as provided by law, any proper matter may be presented at the meeting for action. Notice shall also be given to any holders of first mortgage or equivalent liens on Lots so requesting notice at the address supplied by the holder to the Association and each such holder shall have the right to designate a representative to attend any meeting.

Section 4 Location: Meetings of the Association shall be held on the project whenever possible, or if a larger meeting place is required, at another place in Middletown which is convenient to the owners and designated by the Board of Directors.

Section 5 Fair Meetings and Elections:

(A) With respect to any Association meetings and elections, the Association and its Board of Directors shall adopt rules which do all of the following with respect to elections:

(1) Ensure that any candidate or member advocating a point of view is provided equal access to association media, newsletters, or Internet web sites during a campaign, for purposes reasonably related to the election;

(2) Ensure access to the Association meeting space, if any, at no cost to all candidates;

(3) Specify the qualifications for candidates for the Board of Directors and any other elected position, and procedures for the nomination of candidates;

(4) Specify the qualifications for voting, proxies and voting periods for elections;

(5) Specify a method of selecting one or three independent third parties as inspector(s) and the method of selection such independent third parties.

(B) Any election regarding assessments, selection of members of the Board of Directors, amendments to these By-laws, the Declaration of Covenants, Conditions and Restrictions, or the grant of exclusive use of any portion of the Easement and Maintenance Areas shall be held by secret ballot. Such procedures must include, but are not limited to, determination of the memberships entitled to vote and the voting power of each, determination of the validity of proxies, counting the votes, the determination of the election results, the prompt reporting of such results to the Board of Directors, and the storage of election ballots for no less than one year after the date of the election.

Association funds shall not be used for campaign purposes in connection with any Association board election.

Section 6 Proxies and Absentee Ballots: Votes may be cast in person or by proxy. Proxies must set forth the general nature of the matter to be voted on and be filed with the Secretary of the Board or other designated party before the appointed time of each meeting. A proxy shall terminate if written notice of the death or mental incapacity of the maker (or the termination of a membership as a result thereof) is received by the Association before the vote is counted. The Board of Directors shall be authorized to adopt rules and regulations permitting the filing of absentee ballots providing such ballots otherwise comply with the terms and conditions of these By-laws.

Section 7 Action Without Meeting: Any action which may be taken by the vote of members at a regular or special meeting except the election of members of the Board of Directors where cumulative voting is a requirement may be taken without a meeting by obtaining the written consent of the same required percentage of the membership as if such action were taken at a regular or special meeting of the membership.

Section 8 Association Meeting Procedure, Minutes, etc.: In addition to their access to Association records set forth elsewhere in these By-laws, members may attend Board of Directors meetings, except executive sessions, and obtain copies of the minutes of such meetings, except executive sessions. A member who is to be disciplined by the Association may attend the executive session.

The Board of Directors shall permit any member of the Association to speak at any meeting of the Association or the Board of Directors, except for meetings of the Board held in executive session. A reasonable time limit for all members of the Association to speak to the Board of Directors or before a meeting of the Association shall be established by the Board of Directors.

ARTICLE IV:

BOARD OF DIRECTORS

Section 1 Number: The affairs of the Association shall be governed and managed by a Board of Directors composed of three (3) persons, each of whom, except for those appointed and serving as first Directors, must either be an Owner or an agent of Declarant for so long as Declarant owns a Lot in the Project.

Section 2 Nomination: Nomination for election to the Board may be made by a Nominating Committee appointed by the Board prior to the Annual Meeting. The Nominating Committee shall make as many nominations for election to the Board as it shall in its discretion determine, but not less than the number of vacancies to be filled. Nominations may also be made from the floor at the Annual Meeting.

Section 3 Non-Declarant Voting: Notwithstanding any contrary provision in these By-Laws, so long as a majority of the voting power of the Association resides in the Declarant, or so long as there are two outstanding classes of membership in the Association, not less than twenty percent (20%) of the incumbents on the Board shall be elected solely by the votes of owners other than the Declarant. In order to accomplish the above result, two elections shall be held. The first election will be by members other than the Declarant to elect twenty percent (20%) of the directors. The second election will be by the total voting power of the Association and is to elect eighty percent (80%) of the directors. In the event of an election necessitated by the resignation or removal of a director who was elected pursuant to the above procedure, the successor of such director shall be elected in the same manner as the director being replaced.

Section 4 Terms: Each Director shall serve for a period of two (2) years.

Section 5 Removal: At any Annual or special meeting duly called, any one or more of the

Directors may be removed with or without cause by a majority of the owners and a successor may then and there be elected by the vote or written assent of a majority of the voting power of the Association residing in members other than the Declarant to fill the vacancy thus created. Any Director whose removal has been proposed by the owners shall be given an opportunity to be heard at the meeting.

A Director elected to office solely by the votes of members other than the Declarant may be removed from office only by the vote of a majority of members other than the Declarant.

Section 6 Vacancies: Vacancies in the Board of Directors created by removal of a Director pursuant to Section 5 of this Article, or death or incapacity of a Director, shall be filled by vote of the Association pursuant to Sections 3 and 4 of this Article, and each person so elected shall be a Director for a period of the remaining term of the replaced Director. Vacancies caused by a resignation of a Director shall be filled by a vote of the remaining Directors.

Section 7 Meetings:

Subsection 7.1 Regular Meetings: Regular meetings of the Board of Directors shall be held at such intervals as the Board considers necessary and desirable, but not less often than once every three (3) months. Regular meetings shall be held within the project, unless in the judgement of the Board of Directors a larger meeting room is required in which case it shall be held as close to the project as is practical, and at such hour as may be fixed from time to time by resolution of the Board.

Notice of the time and place of a meeting shall be posted at a prominent place or places within the Easement and Maintenance Area and shall be communicated to each member of the Board of Directors not less than four days prior to the meeting unless the time and place of the meeting is fixed by the By-Laws, 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 a meeting. If a portion of the Easement and Maintenance Area is unsuitable for posting of the notice of the meeting, the Board shall communicate the notice of the time and place of such meeting by any means it deems appropriate.

Subsection 7.2 Special Meetings: Special meetings of the Board may be called by written notice signed by the President or any two Directors. The notice shall specify the time and place of the meeting and the business to be conducted and it shall be mailed or delivered to the residence of each Director and posted in a manner as required for a regular meeting at least seventy-two (72) hours prior to the scheduled time of the meeting. Attendance at a meeting shall constitute a waiver of notice.

Subsection 7.3 Organizational Meetings: The first meeting of a newly elected Board of Directors shall be held within fourteen days of election at a place fixed by the Board.

Subsection 7.4 Quorum: At all meetings of the Board of Directors a majority of the

Directors shall constitute a quorum for the transaction of business, and the acts of the majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. If at any meeting of the Board of Directors there is less than a quorum present, the majority of those present may adjourn the meeting and set a new meeting date, but may not transact any other business.

Subsection 7.5 Open Meetings: Any member of the Association may attend meetings of the Board of Directors of the Association, except when the Board adjourns to "executive session" to consider litigation, matters that relate to the formation of contracts with third parties, member discipline, or personnel matters.

Subsection 7.6 Executive Sessions: With approval of a majority of its members present at a meeting in which a quorum for the transaction of business has been established, the Board may adjourn and reconvene in executive session to discuss and vote upon personnel matters, litigation in which the Association is or may become involved, matters that relate to the formation of contracts with third parties, and member discipline.

The Board of Directors shall meet in executive session, if requested by a member who may be subject to a fine, penalty, or other form of discipline, and the member shall be entitled to attend the executive session. The nature of any business to be considered in executive session shall first be announced in open session. Any matter discussed in executive session shall be generally noted in the minutes of the Board of Directors.

Subsection 7.7 Action Without Meeting: The Board of Directors may take actions without a meeting if all of its members consent in writing to the action to be taken. If the Board resolves by unanimous written consent to take action, an explanation of the action taken shall be posted at a prominent place or places within the Easement and Maintenance Areas within three days after the written consents of all Board members have been obtained. If the Easement and Maintenance Areas is unsuitable for posting the explanation of the action taken, the Board shall communicate said explanation by any means it deems appropriate.

Section 8 Personal Liability of Officer or Director for Injury:

(a) A volunteer member of the Board of Directors or an officer of the Association shall not be personally liable in excess of the coverage specified in paragraph (4) below to any person who suffers injury, including, but not limited to, bodily injury, emotional distress, wrongful death, or property damage or loss as a result of the tortious act or omission of the officer or director if all of the following criteria are met:

- (1) The act or omission was performed within the scope of the officer's or director's Association duties; and
- (2) The act or omission was performed in good faith; and
- (3) The act or omission was not willful, wanton, or grossly negligent; and
- (4) The Association maintained and had in effect at the time the act or omission occurred

and at the time a claim is made one or more policies of insurance which shall include coverage for (A) general liability of the Association and (B) individual liability of officers and directors of the Association for negligent acts or omissions in that capacity; provided, that both types of coverage are in the minimum amount of \$500,000.

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

(c) An officer or director who at the time of the act or omission was a Declarant, as defined in the Declaration of Covenants, Conditions and Restrictions for the Rim Rock Ranch Vineyard Estates project, or who received either direct or indirect compensation as an employee from the declarant, or from a financial institution that purchased a separate interest at a judicial or nonjudicial foreclosure of a mortgage or deed of trust on real property, is not a volunteer for the purposes of this section.

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

(e) This section shall only apply to a volunteer officer or director who is a tenant of a separate interest in the project or is an owner of no more than two separate interests in the project.

(f) (1) For purposes of paragraph (1) of subdivision (a), the scope of the officer's or director's Association duties shall include, but shall not be limited to, both of the following decisions:

(A) Whether to conduct an investigation of the project for latent deficiencies prior to the expiration of the applicable statute of limitations.

(B) Whether to commence a civil action against the builder (Declarant or its successors) for defects in design or construction.

(2) This section is intended to clarify the scope of the Association's duties to which the protections against personal liability in this section apply. Such clarifications shall not be construed to expand, or limit, the fiduciary duties owed by the directors or officers.

Section 9 Directors Indemnification: A director shall be indemnified by the members for all actions taken against such Director personally in his office of Director if he performs the duties of a Director, in good faith, in a manner such Director believes to be in the best interest of the Association and with such care, including reasonable inquiry, as an ordinary prudent person in a like position would use under similar circumstances. In performing the duties of a Director, a Director shall be entitled to rely on information, opinions, reports, statements, financial statements, and other data when supplied by officers, agents, employees, accountants, attorneys, committees, and others, so long as, in each case, the Director believes such

information is presented by persons who are reliable and competent in the matter presented and as long as the Director acts in good faith, in a manner such person believed to be in the best interests of the Association and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

ARTICLE V

POWERS AND DUTIES OF THE BOARD OF DIRECTORS

Section 1 Powers of the Board: The Board of Directors shall have the powers necessary for the administration of the affairs of the Association, the maintenance of the Easement and Maintenance Areas and the regulation of the Association, and may do all such acts and things as are not prohibited by law or by these By-Laws directed to be exercised and done by the owners, including but not limited to:

Subsection 1.1 Operating Rules of the Association: Subject to the specific provisions of the following Article VI of these By-laws entitled “Operating Rules of the Association” and the Declaration, the Board may adopt such Operating Rules as it deems necessary for the management of the Project.

Subsection 1.2 Discipline: The Board shall enforce the provisions of the Declaration, these By-Laws and the Rules in accordance with these By-laws and the Declaration, Article IV, Section 10.

If the Association adopts or has adopted a policy imposing any monetary penalty, including any fee, on any Association member for a violation of the governing documents or Rules of the Association, including any monetary penalty relating to the activities of a guest or invitee of a member, the Board of Directors shall adopt and distribute to each member, by personal delivery or first-class mail, a schedule of the monetary penalties that may be assessed for those violations, which shall be in accordance with authorization for member discipline contained in the governing documents.

The Board of Directors shall not be required to distribute any additional schedules of monetary penalties unless there are changes from the schedule that was adopted and distributed to the members pursuant to this Subsection. The Board of Directors shall meet in executive session if requested by the member being disciplined, and the member shall be entitled to attend the executive session.

Subsection 1.3 Expenses: The Board may incur and/or pay expenses on behalf of the

Association including taxes, assessments, insurance, and goods and services.

The Association and its Board of Directors shall ordinarily be prohibited from taking any of the following actions, except with the assent, by vote at a meeting of the Association, of a simple majority of the members, other than the Declarant, constituting a quorum consisting of more than fifty percent (50%) of the voting power of the Association residing in members other than the Declarant:

(1) Entering into any contract with a third person wherein the third person will furnish goods or services for the Easement and Maintenance Areas or the Association for a term longer than one (1) year with the exception of the following:

- A. A management contract, the terms of which have been approved by the Federal Housing Administration or Veterans Administration.**
- B. A contract with a public utility company if the rates charged for the materials or services are regulated by the Public Utilities Commission provided, however, that the term of the contract shall not exceed the shortest term of which the supplier will contract at the regulated rate.**
- C. Prepaid casualty and/or liability insurance policies not to exceed three years provided that the policy permits short rate cancellation by the insured.**
- D. Lease agreements for laundry room fixtures and equipment, if any, which do not exceed five (5) years duration provided that the lessor under the agreement is not an entity in which the Declarant has a direct or indirect ownership of ten percent (10%) or more.**
- E. Agreements for cable television services and equipment or satellite television services and equipment not to exceed five (5) years duration provided that the supplier is not an entity in which the subdivider has a direct or indirect ownership interest of ten percent (10%) or more.**
- F. Agreements for sale or lease of burglar alarm and fire alarm equipment, installation, and services not to exceed five (5) years duration provided that the supplier or suppliers are not entities in which the subdivider has a direct or indirect ownership of ten percent (10%) or more.**
- G. A contract for a term not to exceed three years that is terminable by the Association after no longer than one year without cause, penalty, or other obligation upon ninety (90) days written notice of termination to the other party.**

(2) Incurring aggregate expenditures for capital improvements to the Easement and

Maintenance Areas in any fiscal year in excess of 5% of the budgeted gross expenses of the Association for that fiscal year.

(3) Selling during any fiscal year property of the Association having an aggregate fair market value greater than 5% of the budgeted gross expenses of the Association for that fiscal year.

(4) Paying compensation to members of the Board or to officers of the Association for services performed in the conduct of the Association's business provided, however, that the Board may cause a member or officer to be reimbursed for expenses incurred in carrying on the business of the Association.

Subsection 1.4 Delegation & Employment: The Board may employ, contract for, and/or establish and delegate to committees, officers, employees, and other agents of the Association reasonable powers to carry out the power and duties of the Board with the exception of delegating its powers to conduct hearings, levy fines or impose discipline in accordance with Subsection 1.2 of this Article V.

Subsection 1.5 Access: The Board and its agents or employees shall have the exclusive right to enter a Lot residence as necessary in connection with construction, maintenance or emergency repair for the benefit of the Easement and Maintenance Areas or the owners in common. Except in an emergency, forty-eight (48) hours notice shall be given to the Owner or occupant.

Section 2 Duties of the Board:

Subsection 2.1 Insurance: The Board, if it deems such insurance is necessary and desirable, shall procure and maintain a comprehensive policy or policies of insurance, in accordance with the provisions of the Declaration, Article IV, Section 3.

In addition, the Board of Directors shall require that all officers, employees, and agents of the Association handling or responsible for Association funds shall furnish an adequate fidelity bond (or insurance) in an amount not less than \$10,000 per person. The Board shall require of any management agent evidence of coverage of a fidelity bond (or insurance) on himself and his employees paid by the agent to the benefit of his clients exceeding the total amount of depositories of which he and/or his employees are signatories.

Subsection 2.2 Inspection of Records: The membership register, including mailing addresses and telephone numbers books of account, minutes and committee reports shall be available for inspection and copying at a reasonable cost established by the Board by any member or his duly appointed representative at a reasonable time to be established in advance and published in writing by the Board of Directors at the office of the Association or other reasonable place established by the Board.

Subsection 2.3 Books and Financial Statements: The Association shall prepare and

distribute to all its members the following documents:

(a) A pro forma operating budget for the immediately ensuing fiscal year, a copy of which shall be distributed to Unit Owners not less than 30 days nor more than 90 days prior to the beginning of each fiscal year, which shall contain the following:

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

(2) A summary of the Association's reserves based upon the most recent review or study conducted pursuant to Subsection 2.5 of this Article, and based only on assets held in cash or cash equivalents, which shall be printed in boldface type and include all of the following:

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

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

(i) The current estimate of the amount of cash reserves necessary to repair, replace, restore, or maintain the major components.

(ii) The current amount of accumulated cash reserves actually set aside to repair, replace, restore, or maintain major components.

(iii) If applicable, the amount of funds received from either a compensatory damage award or settlement to the Association from any person or entity for injuries to property, real or personal, arising out of any any construction or design defects, and the expenditure or disposition of funds, including the amounts expended for the direct and indirect costs of repair of construction or design defects. These amounts shall be reported at the end of the fiscal year for which the study is prepared as separate line items under cash reserves pursuant to clause (ii). In lieu of complying with the requirements set forth in this clause, an association that is obligated to issue a review of their financial statement pursuant to subdivision (b) may include in the review a statement containing all the information required by this clause.

(C) The percentage that the amount determined for purposes of clause (ii) of subparagraph (B) equals the amount determined for purposes of clause (i) of subparagraph (B).

(3) A statement as to both of the following:

- (A) Whether the Board of Directors of the association has determined or anticipates that the levy of one or more special assessments will be required to repair, replace, or restore any major component or to provide adequate reserves therefor. If so, the statement shall also set out the estimated amount, commencement date, and duration of the assessment.
- (B) The mechanism or mechanisms by which the Board of Directors will fund reserves to repair or replace major components, including assessments, borrowing, use of other assets, deferral of selected replacement or repairs, or alternative mechanisms.
- (4) A general statement setting forth the procedures used by the Board in the calculation and establishment of those reserves to defray the future repair, replacement or additions to those major components that the Association is obligated to maintain. The report may not assume a rate of return on cash reserves in excess of 2 percent above the rediscount rate published by the Federal Reserve Bank of San Francisco at the time the calculation was made.

The summary of the Association's reserves disclosed pursuant to paragraph (2) shall not be admissible in evidence to show improper financial management of an Association, provided that other relevant and competent evidence of the financial condition of the Association is not made inadmissible by this provision.

A copy of the pro forma operating budget shall be annually distributed not less than 30 days nor more than 90 days prior to the beginning of the association's fiscal year.

- (b) A review of the financial statement of the Association shall be prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy for any fiscal year in which the gross income to the Association exceeds seventy-five thousand dollars (\$75,000). A copy of the review of the financial statement shall be distributed within 120 days after the close of each fiscal year.
- (c) In lieu of the distribution of the pro forma operating budget required by (a) above, the Board of Directors may elect to distribute a summary of the pro forma operating budget to all its members with a written notice (10 point bold type on the front page of the budget) that the budget is available at the business office of the Association or at another suitable location within the Project, and that copies will be provided upon request and at the expense of the Association. If any member requests that a copy of

the pro forma operating budget required by subdivision (a) be mailed to the member, the Association shall provide the copy to the member by first-class United States mail at the expense of the Association and delivered within five days. The written notice that is distributed to each of the association members shall be in at least 10-point boldface type on the front page of the summary of the budget.

(d) In addition to financial statements, the Board shall annually distribute a statement describing the Association's policies and practices in enforcing its rights and legal remedies for default in payment of its assessments against its members not less than 30 days nor more than 90 days immediately preceding the beginning of the association's fiscal year.

(e) (1) The Association shall prepare and distribute to all its members a summary of the Association's property, general liability, and earthquake and flood insurance policies, which shall be distributed not less than 30 nor more than 90 days preceding the beginning of the Association's fiscal year, and such summary shall include all of the following information about each policy:

- (A) The name of the insurer;**
- (B) The type of insurance;**
- (C) The policy limits of the insurance;**
- (D) The amount of deductibles, if any.**

(2) The Association shall, as soon as reasonably practicable, notify its members by first-class mail if any of the policies described in paragraph (1) have lapsed, been canceled, and are not immediately renewed, restored, or replaced, or if there is a significant change, such as a reduction in coverage or limits or an increase in the deductible, as to any of those policies. If the Association receives any notice of non-renewal of a policy described in paragraph (1), the Association shall immediately notify its members if replacement coverage will not be in effect by the date the existing coverage will lapse.

(3) To the extent that any of the information required to be disclosed pursuant to paragraph (1) is specified in the insurance policy declaration page, the Association may meet its obligation to disclose that information by making copies of that page and distributing it to all of its members.

(4) The summary distributed pursuant to paragraph (1) shall contain, in at

least 10-point boldface type, the following statement:

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

Subsection 2.4 Reconciliation and Review of Accounts: The Board of Directors shall do the following not less frequently than quarterly:

- (1) Cause a current reconciliation of the Association’s operating accounts to be made and review the same; and**
- (2) Cause a current reconciliation of the Association’s reserve accounts to be made and review the same; and**
- (3) Review the current year's actual reserve revenues and expenses compared to the current year's budget; and**
- (4) Review the most current account statements prepared by the financial institution where the Association has its operating and reserve accounts; and**
- (5) Review an income and expense statement for the Association's operating and reserve accounts.**

Subsection 2.5 Reserves and Reserves Study: Each annual regular assessment shall include a portion for reserves in such amount as the Board in its discretion considers appropriate to meet the cost of the future repair, replacement or additions to the major components that the Association is obligated to maintain and repair. Reserve funds shall be deposited in a separate account and the signatures of at least two persons who shall either be members of the Board or one officer who is not a member of the Board and a Board member shall be required to withdraw monies from the reserve account. Reserve funds may not be expended for any purpose other than the repair, restoration replacement, or maintenance of, or litigation involving the repair, restoration, replacement, or maintenance of, major components which the Association is obligated to maintain.

Notwithstanding the foregoing, the Board may authorize the temporary transfer of money

from a reserve fund to the Association's general operating fund to meet short-term cash-flow requirements or other expenses, provided the Board has made a written finding, recorded in the Board's minutes, explaining the reasons that the transfer is needed and describing when and how the money will be repaid to the reserve fund. The transferred funds shall be restored to the reserve fund within one year of the date of the initial transfer, except that the Board may, upon making a finding supported by documentation that a temporary delay would be in the best interests of the Project, temporarily delay the restoration. The Board shall exercise prudent fiscal management in maintaining the integrity of the reserve account, and shall, if necessary, levy a special assessment to recover the full amount of the expended funds within the time limits required herein.

At least once every three years, the Board shall cause to be conducted a reasonably competent and diligent visual inspection of the accessible areas of the major components which the Association is obligated to repair, replace, restore, or maintain as part of a study of the reserve account requirements of the project if the current replacement value of the major components which the Association is obligated to repair, replace, or maintain is equal to or greater than one-half of the gross budget of the Association which excludes the Association's reserve account for that period.

The Board shall review the study annually and shall consider and implement necessary adjustments to the Board's analysis of the reserve account requirements as a result of that review.

The study required shall, at a minimum, include:

- (1) identification of the major components which the Association is obligated to repair, replace, restore, or maintain which, as of the date of the study, have a remaining useful life of less than thirty (30) years;
- (2) identification of the probable remaining useful life of the components identified in subparagraph (1) above as of the date of the study;
- (3) an estimate of the cost of repair, replacement, restoration, or maintenance of each major component identified in subparagraph (1) during and at the end of their useful life; and
- (4) an estimate of the total annual contribution necessary to defray the cost to repair, replace, restore, or maintain components identified in subparagraph (1) above during and at the end of their useful life, after subtracting total reserve funds as of the date of the study .

As used herein, "reserve accounts" means moneys 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 "reserve account requirements" means the estimated funds which the Board has determined are required to be available at a specified point in time to repair, replace or restore those major components which the Association is obligated to maintain.

Withdrawal of funds from the Association's reserve account shall require the signatures of

either (1) two members of the Board of Directors or (2) one member of the Board of Directors and an officer of the Association who is not also a member of the Board of Directors.

Subsection 2.6 Supervision: The Board shall supervise the officers, agents, and employees of the Association in proper performance of their duties.

Subsection 2.7 Assessments: As more fully provided in the Declaration and subject to any limitations contained therein the Board shall fix the amount of the annual assessment against each Lot and send notice to each member of such annual assessment at least sixty (60) days in advance of each assessment period. Failure on the part of the Board to send notice of assessment will not invalidate the obligation of each owner to pay the assessment. The Board shall issue, or cause an appropriate officer to issue, upon demand by any person, a certificate setting forth whether or not any assessment has been paid. A reasonable charge may be made by the Board for the issuance of such certificates. If a certificate states an assessment has been paid, such certificate shall be conclusive evidence of such payment.

Subsection 2.8 Collections: The Board shall take appropriate action against any owner who is delinquent in the payment of any assessment by the Association, including, but not limited to commencement of an action against the owner for payment thereof in accordance with the provisions set forth in the Declaration, Article V, Section 6.

Subsection 2.9 Easement and Maintenance Areas: The Board shall cause the Easement and Maintenance Areas and any other portions of the Project for which the Association may be responsible to be kept in a good state of maintenance and repair, in accordance with the provisions of the Declaration.

Subsection 2.10 Expenses: The Board shall pay proper expenses, including taxes and assessments of the Association.

Subsection 2.11 Architectural Control: The Board shall assure that the function of the Architectural Control Committee is carried out in accordance with the Declaration and hear appeals therefrom.

Section 3 Board Actions Prohibited: The Board of Directors is prohibited from taking any of the following actions, except with the vote or written assent of the majority of the voting power of the Association residing in members other than the Declarant:

A. Incurring aggregate expenditures for capital improvements to the Easement and Maintenance Areas in any year in excess of five percent (5%) of the budgeted gross expenses of the Association for that year.

B. Selling during any fiscal year property of the Association having

an aggregate fair market value greater than five percent (5%) of the budgeted gross expenses of the Association for that fiscal year.

- C. Paying compensation to Directors or Officers of the Association for services performed in the conduct of the Association business. The Board of Directors may cause a director, officer, or a member to be reimbursed for reasonable expenses actually incurred in carrying out the business of the Association.**

ARTICLE VI

OPERATING RULES OF THE ASSOCIATION

Section 1 Operating Rules of the Association: Subject to the specific provisions of this Article and the Declaration, the Board may adopt such Operating Rules as it deems necessary for the management of the Project. Such Operating Rules may concern, but need not be limited to, the following subjects:

- A. Use and maintenance of the Easement and Maintenance Areas;**
- B. Use of a Lot, including any aesthetic or architectural standards that govern alteration of such Lot;**
- C. Member discipline, including any schedule of monetary penalties for violation of the governing documents and any procedure for the imposition of penalties;**
- D. Any standards for delinquent assessment payment plans;**
- E. Any procedures adopted by the Association for resolution of disputes;**
- F. Collection and disposal of refuse;**
- G. Use of parking spaces located in the Easement and Maintenance Areas; and**
- H. Any other subject within the jurisdiction of the Association as provided in these By-laws and the Declaration.**

A copy of the Operating Rules so adopted shall be furnished to each Lot Owner, and each Lot Owner, his family, guests, employees, invitees, licensees and tenants shall comply with such Rules.

Section 2 Applicability of Requirements for Changes to Operating Rules:

The following Sections 3 & 4 of this Article VI **only apply** to an operating rule that relates to one or more of the following subjects:

- (1) Use of the Easement and Maintenance Areas;
- (2) Use of a Lot, including any aesthetic or architectural standards that govern alteration of a Lot;
- (3) Member discipline, including any schedule of monetary penalties for violation of the governing documents and any procedure for the imposition of penalties;
- (4) Any standards for delinquent assessment payment plans; and
- (5) Any procedures adopted by the Association for resolution of disputes.

The following Sections 3 & 4 of this Article **do not** apply to the following actions by the Board of Directors:

- (1) A decision regarding maintenance of the Easement and Maintenance Areas;
- (2) A decision on a specific matter that is not intended to apply generally;
- (3) A decision setting the amount of a regular or special assessment;
- (4) A rule change that is required by law, if the Board of Directors has no discretion as the substantive effect of the rule change; and
- (5) Issuance of a document that merely repeats existing law or the governing documents of the Association.

Section 3 Adoption of Rule Change:

(a) The Board of Directors shall provide written notice of a proposed rule change to the members at least 30 days before making the rule change. The notice shall include the text of the proposed rule change and a description of the purpose and effect of the proposed rule change. Notice is not required if the Board determines that an immediate rule change is necessary to address an imminent threat to public health or safety or imminent risk of substantial economic loss to the Association.

(b) A decision on a proposed rule change shall be made at a meeting of the Board of Directors, after consideration of any comments made by Association members.

(c) As soon as possible after making a rule change, but not more than 15 days after making the rule change, the Board of Directors shall deliver notice of the rule change to every Association member. If the rule change was an emergency rule change made under subdivision (d), the notice shall include the text of the rule change, a description of the purpose and effect of the rule change, and the date that the rule change expires.

(d) If the Board of Directors determines that an immediate rule change is required to address an imminent threat to public health or safety, or an imminent risk of substantial

economic loss to the Association, it may make an emergency rule change; and no notice is required, as specified in subdivision (a). An emergency rule change is effective for 120 days, unless the rule change provides for a shorter effective period. A rule change made under this section may not be readopted under this section.

(e) For the purposes of this section, a rule change is commenced when the Board of Directors takes its first official action leading to adoption of the rule change.

Section 4 Reversing a Rule Change:

(a) Members of the Association owning five percent (5%) or more of the lots may call a special meeting of the members to reverse a rule change.

(b) A special meeting of the members may be called by delivering a written request to the president or secretary of the Board of Directors, after which the Board shall deliver notice of the meeting to the Association's members. The written request may not be delivered more than 30 days after the members of the Association are notified of the rule change.

Members are deemed to have been notified of a rule change on delivery of notice of the rule change, or on enforcement of the resulting rule, whichever is sooner.

(c) The rule change may be reversed by the affirmative vote of a majority of the votes represented and voting at a duly held meeting at which a quorum is present (which affirmative votes also constitute a majority of the required quorum), or if the Declaration or Bylaws require a greater proportion, by the affirmative vote or written ballot of the proportion required. In lieu of calling the meeting described in this section, the Board may distribute a written ballot to every member of the Association.

(d) Unless otherwise provided in the Declaration or Bylaws, for the purposes of this section, a member may cast one vote per Lot owned.

(e) A rule change reversed under this section may not be readopted for one year after the date of the meeting reversing the rule change. Nothing in this section precludes the Board from adopting a different rule on the same subject as the rule change that has been reversed.

(f) As soon as possible after the close of voting, but not more than 15 days after the close of voting, the Board of Directors shall provide notice of the results of a member vote held pursuant to this section to every Association member, to be delivered by first class mail, postage prepaid, addressed to a member at the address last shown on the books of the Association or otherwise provided by the member, or e-mail, facsimile, or other electronic means, if the recipient has agreed to that method of delivery.

(g) This section does not apply to an emergency rule change made pursuant to the preceding section.

(h) For purposes of this Article, a rule change is commenced when the Board of Directors of the Association takes its first official action leading to adoption of the rule change.

ARTICLE VII:

OFFICERS AND THEIR DUTIES

Section 1 Enumeration of Officers: The officers of this Association shall be a president, a vice-president/chief financial officer and a secretary, who shall at all times be members of the Board of Directors.

Section 2 Election: The election of officers shall take place at the first meeting of the Board immediately following their election.

Section 3 Term: The officers of this Association shall be elected annually by the Board and each shall hold office for one (1) year unless he shall sooner resign, or shall be removed or otherwise disqualified to serve.

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

Section 5 Resignation and Removal: Any officer may be removed from office by the Board with or without cause. Any officer may resign at any time by giving written notice to the Board, the president or the secretary. Such resignation shall take effect on the date of receipt of such notice or at any later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 6 Vacancies: A vacancy in any office may be filled by appointment by the Board. The officer appointed to such vacancy shall serve for the remainder of the term of the officer replaced.

Section 7 Duties: The duties of the officers are as follows:

A. **President:** The president shall preside at all meetings of the Board of Directors, see that orders and resolutions of the Board are carried out, shall sign all leases, mortgages, checks and promissory notes, and perform such other duties as may be required by the Board.

B. Vice-President/ Chief Financial Officer: The vice-president/chief financial officer shall act in the place and stead of the president in the event of his absence, inability or refusal to act, and shall receive and deposit in appropriate bank accounts all monies of the Association, disburse such funds as directed by resolution of the Board of Directors, co-sign all checks and promissory notes of the Association, keep proper books of account and prepare (or cause to be prepared), distribute financial statements to each member as outlined in Article 5, Section 2.3 of these By-laws, and exercise and discharge such other duties as may be required by the Board.

C. Secretary: The secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the members, serve notice of meetings of the Board and of the members, keep appropriate current records showing the members of the Association together with their addresses, and perform such other duties as may be required by the Board.

Section 8 Delegation: Any of the above outlined duties may be delegated by a resolution of the Board to a manager appointed by the Board.

ARTICLE VIII

COMMITTEES

Section 1 Appointment: Committees shall be established by the Board of Directors.

Section 2 Chairpersons: Committee chairpersons are to be appointed by and are to serve at the pleasure of the Board.

Section 3 Members: Members of the Committee are to be appointed by and are to serve at the pleasure of the Board.

Section 4 Duties: Committee duties are to be defined by the Board.

Section 5 Committees Enumerated:

A. Architectural Control Committee: As more fully defined in Article VIII of the Declaration, the Association shall have an Architectural Control Committee.

B. Nominating Committee: The Nominating Committee may be established and consist of a chairperson who shall always be a Director, and two members who shall always be members. The Nominating Committee may make as many nominations for Directors prior to the Annual Meeting as it determines necessary but in no event less than the number of

vacancies on the Board.

C. Other Committees: Other committees may be established from time to time by the Board.

ARTICLE IX:

INSPECTION OF ASSOCIATION BOOKS AND RECORDS

(a) Commencing not later than ninety (90) days after the close of escrow of the first Lot within the project, copies of the documents listed below, as soon as readily obtainable, shall be delivered by the Declarant (or its representative) to the Board of Directors at the office of the Association, or at such other place as the Board of Directors shall prescribe. The obligation to deliver the documents listed below shall apply to any documents obtained by the Declarant no matter when obtained, provided, however, such obligation shall terminate upon the earlier of (1) the conveyance of the last Lot within the project or (2) three years after the expiration of the most recent final subdivision public report on the project:

- (1) The recorded subdivision map for the project;
- (2) The deeds and easements executed by the Declarant conveying the Easement and Maintenance Areas or other interest to the Association, to the extent applicable;
- (3) The recorded Declaration of Covenants, Conditions, and Restrictions for the project, including all amendments and annexations thereto;
- (4) The Association's By-laws and all amendments thereto;
- (5) All architectural guidelines and all other rules regulating the use of an owner's interest in the project or use of the Easement and Maintenance Areas which have been promulgated by the Association;
- (6) The plans approved by Lake County for the improvement of facilities that the Association is obligated to maintain or repair; provided, however, that the plans need not be as-built plans and that the plans may bear appropriate restrictions on their commercial exploitation or use and may contain appropriate disclaimers regarding their accuracy;
- (7) All notice of completion certificates issued for the Easement and Maintenance Areas improvements (other than residential structures);
- (8) Any bond or other security device in which the Association is the beneficiary;
- (9) Any written warranty being transferred to the Association for Easement and Maintenance Areas equipment, fixtures or improvements;
- (10) Any insurance policy procured for the benefit of the Association, its Board of Directors or the Easement and Maintenance Areas;
- (11) Any lease or contract to which the Association is a party;
- (12) The membership register (including names, addresses and telephone numbers), books of account and minutes of meetings of the members of the Board, and of committees of the Board;
- (13) Any instrument not described above which establishes or defines the common, mutual or

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reciprocal rights or responsibilities of members of the Association.

(b) The obligation to deliver the documents listed in subsection (a) shall apply to any documents obtained by the Declarant no matter when obtained, provided, however, such obligation shall terminate upon the earlier of (1) the conveyance of the last Lot covered by a subdivision public report or (2) three years after the expiration of the most recent public report on the project.

(c) The membership register (including names, addresses and telephone numbers), books of account and minutes of meetings of the members of the Board, and of committees of the Board shall be made available for inspection and copying by any member of the Association, or by his duly appointed representative, at any reasonable time and for a purpose reasonably related to his interest as a member, at the office of the Association or at such other place within the project as the Board shall prescribe.

(d) (1) In the case of 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 of Directors, other than an executive session, shall be available to members within thirty (30) days of the meeting and shall be distributed to only members upon request and payment of the fee prescribed in (e) (3) below.

(2) Members of the Association shall be notified in writing at the time the pro forma budget required by Article V, Subsection 2.3 of these By-laws 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 of Directors and how and where those minutes may be obtained and the cost of obtaining such copies.

(e) The Board of Directors shall establish reasonable rules with respect to:

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

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

ARTICLE X

AMENDMENTS

Prior to close of escrow on the sale of the first Lot, Declarant may amend these By-Laws (providing any amendments constituting a material change shall require the approval of the Department of Real Estate). After sale of the first Lot, these By-Laws may be amended only by the affirmative vote (in person or by proxy) or written consent of members representing a majority of a quorum of the Association and a majority of the votes or written consent of members other than Declarant, or where the two (2) class voting structure is still in effect, by vote of a majority of each class of members. However, the percentage of voting power necessary to amend a specific clause or provision shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause.

ARTICLE XI

MISCELLANEOUS

Section 1 Fiscal Year: The fiscal year of the Association shall begin on the first day of January and end on the 31st day of December of every year, except that the first fiscal year shall begin on the date of the first meeting of the Association.

Section 2 Conflict: In case any of these By-Laws conflict with any provisions of the laws of the State of California, such conflicting By-Law shall be null and void, but all other By-Laws shall remain in full force and effect. In case these By-Laws conflict with the provisions of the Declaration of Covenants, Conditions, and Restrictions, the Declaration shall control these By-Laws.

Section 3 Mortgagees:

A. **Notice to Association:** An owner who mortgages or homesteads his Lot, shall notify the

Association through the Management Agent, if any, or the President of the Association in the event there is no Management Agent, of the name and address of his mortgagees, and the Association shall maintain such information. Any such owner shall likewise notify the Association as to the release or discharge of any such mortgage or homestead.

B. Notice of Unpaid Assessments: The Association shall at the request of a mortgagee of a Lot report any unpaid assessments due from the owner of such Lot.

Section 4 Owner's Address: It shall be the responsibility of each Lot Owner to maintain a current address on file with the secretary of the Association. Association notices and correspondences shall be sent to such address.

Section 5 Disclosures:

- (1) The Association must give not less than 30 to no more than 60 days advance notice of any increase in regular or special assessments.
- (2) The following shall be given to prospective purchasers:
 - (a) Written disclosure of the amount of the Association's current regular and special assessments which are unpaid as of the date of the statement;
 - (b) True information as to late charges, interest and collection costs which are or may become due on the Lot; and
 - (c) Any changes in the assessments or fees which have been approved by the Board of Directors, but not yet due or payable on the disclosure date.

CERTIFICATE

I, the undersigned, the duly elected and acting Secretary of Rim Rock Ranch Vineyard Estates Owners' Association, a California unincorporated association, do hereby certify that the foregoing By-Laws were adopted as the Bylaws of the Association on _____, 200__, and that the same do now constitute the Bylaws of the Association.

This certificate is executed under penalty of perjury on _____, 200__, in _____, California.

Secretary

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