

**BYLAWS OF
HILLS RANCH OWNERS' ASSOCIATION®
(As Amended in 2003)**

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**BYLAWS OF
HILLS RANCH OWNERS' ASSOCIATION
(As Amended in 2003)**

These Amended **Bylaws** of the Hills Ranch Owners' Association ("**Bylaws**") supersede any and all earlier **Bylaws** and amendments thereto ("**Former Bylaws**"). These **Bylaws** are a companion document to the **Declaration** and defined terms (in bold) in these **Bylaws** have the same meaning as in the **Declaration**.

**ARTICLE I
ASSOCIATION GENERALLY**

Section 1. Name and Location. The name of this Nonprofit Mutual Benefit Corporation is "HILLS RANCH OWNERS' ASSOCIATION," (hereinafter referred to as the "**Association**"). The principal location of the **Association** is in the County of Mendocino, State of California.

Section 2. Purpose. The purposes of the **Association** are:

- (a) to control, own, repair, maintain, manage, protect and/or enhance the **Common Areas** and common facilities;
- (b) to generally enforce the **Governing Documents** of the Hills Ranch Owners' Association, including the **CC&Rs** and the rules;
- (c) to enhance and promote the use and enjoyment of the **Common Areas** and common facilities by the residents and/or **Members**;
- (d) to maintain the aesthetic and architectural standards of Hills Ranch;
- (e) to maintain the exterior of the residences as specified in the **CC&Rs**;
- (f) to enhance and protect the quality of life of residents.

**ARTICLE II
MEMBERSHIP**

Every owner of a residence within Hills Ranch is a **Member** of the **Association**. Membership in the **Association** is linked to, and may not be separated from, ownership of any residence. Upon the sale, conveyance or other transfer of an **Member's** interest, the **Member's** membership shall automatically transfer to the new Owner(s).

**ARTICLE III
MEMBERSHIP VOTING**

Section 1. Member Voting Rights. On each matter submitted to a vote of the **Members**, each **Member** shall be entitled to cast one vote for each **Lot** owned by such **Member**. When more than one (1) **Person** owns an interest in a single **Lot**, any vote cast by a single **Member** shall be deemed the authorized vote for that **Lot**. If conflicting votes are cast for the **Lot**, no vote shall be counted except a single vote shall be counted for purposes of a quorum.

Section 2. No Cumulative Voting. There shall be no cumulative voting.

Section 3. Proxies.

(a) **Proxies Generally.** Any **Member** entitled to vote may do so either in person or by agent authorized by a written proxy filed with the **Secretary** of the **Association**. A proxy is a document by which a **Member** authorizes or directs an agent to cast the **Member's** vote. To be valid, a proxy must be signed and dated.

(b) **Duration of Proxies.** The duration of a proxy may be for:

- (1) a vote on a specific matter or election;
- (2) a specific meeting and any continuation of such meeting;
- (3) up to eleven (11) months from the date of execution if not otherwise specified;
- (4) a maximum of three years from the date of execution if so specified.

(c) **Effectiveness of Proxies.** A proxy continues in force until revoked by the issuing **Member** prior to the vote or on expiration. Any proxy may be revoked by the **Member** at any time prior to the vote by:

- (1) delivery to the **Secretary** of a signed, dated, written notice of revocation,
- (2) a later proxy signed and dated by the **Member** and presented at the meeting, or
- (3) by attendance at any meeting and voting in person by the **Member**.

A proxy shall be deemed revoked when the **Secretary** receives actual notice of the death or judicially declared incompetence of the **Member** issuing the proxy, or upon termination of such **Member's** status as an owner.

(d) **Validity of Proxies With Respect to Certain Material Transactions.** Any proxy given with respect to any of the matters described in this subparagraph shall be valid only if the proxy form sets forth a general description of the nature of the matter on which to be voted. The matters subject to this requirement include:

- (1) Removal of Directors without cause;
- (2) Filling of vacancies on the **Board**;
- (3) Approval of contracts or transactions between the **Association** and one or more Directors, or between the **Association** and a corporation, firm or other entity in which one or more of the Directors has a material financial interest;

(4) Amendment of the **Articles**, these **Bylaws**, or the **Declaration**;

(e) **Directed Proxies.**

(1) If the proxy is a directed proxy, the proxy holder is obligated to cast the vote in accordance with the issuer's instructions on the proxy. This may include direction to withhold the vote except for purposes of a quorum.

(2) Proxies distributed in connection with the election of Directors shall identify all of the candidates known to the **Board** at the time the proxy is issued. The proxy shall contain a space where the issuing **Member** can express his or her voting preference.

(3) Any proxy distributed to ten (10) or more **Members** must afford an opportunity on the proxy to specify a choice between approval or disapproval of any matter or group of related matters intended, at the time the proxy is distributed, to be acted upon at the meeting for which the proxy is solicited.

(f) **Proxy Rules for Memberships Held by More Than One Person.** Any proxy signed by a single **Member** shall be deemed the authorized proxy for that **Lot**. In the event of conflicting proxies (and/or votes) for a single **Lot**, no proxy shall be counted for that **Member's Lot** except for purposes of achieving a quorum.

(g) **No Proxy Voting if Written Ballots Used Without a Meeting.** Proxy voting shall not be allowed when **Members'** votes are solicited by written ballot to be cast without a meeting.

(h) **Toward Quorum.** If noted on the proxy, a proxy may be counted solely toward achieving a quorum and with instructions to abstain on all substantive votes.

(i) **Proxy Given to the Board.** If a proxy is given to the **Board** generally without direction as to how any vote shall be cast, the proxy shall be counted as a majority of the **Board** directs.

Section 4. Approval by Acclamation. In the event that any business before the **Members** is unopposed, the **Board** may dispense with the formality of balloting and resolve the business by acclamation.

Section 5. Action Without a Meeting.

(a) **The Ballot.** Any action which may be taken by the vote of **Members** at a regular or special meeting may be taken without a meeting if:

(1) the **Association** distributes a written ballot to every **Member** entitled to vote on the matter (no proxies are distributed in this process);

(2) the ballot sets forth the proposed action, provides an opportunity to specify approval or disapproval of any proposal and specifies a reasonable time within which to return the ballot to the **Association** in order for it to be counted; and

(3) the solicitation indicates the number of responses necessary to meet the quorum requirement and, as to ballots other than for the election of Directors, states the percentage of approvals necessary to pass the proposal.

(b) **Counting of Ballots.** Even though no meeting is held, the balloting shall still be subject to the same quorum and approval requirements as an action in a meeting.

(c) **Extension of Time.** The Board may extend the time fixed for the return of the ballots.

Section 6. Contract Purchasers. A Member who has sold his or her Lot to a contract purchaser under an agreement to purchase must delegate his or her membership rights in the Association. Any such delegation shall be in writing and shall be delivered to the Board before such contract purchaser may vote.

Section 7. Transmission of Ballots and Proxies. Members may return ballots and/or proxies by mail, hand-delivery or facsimile.

ARTICLE IV **MEMBERSHIP MEETINGS**

Section 1. Types of Meetings.

(a) **Annual Meetings.** Annual meetings of the Association shall be held in August of each calendar year. Meetings shall be held on the premises or at a location within the village of Mendocino.

(b) **Special Meetings.** Special Meetings of the Members may be called at any time by the President or by two Directors. Additionally, a Special Meeting of the Members shall be promptly called by the Board upon receipt of a written request signed by Members representing not less than five percent (5%) of the total voting power of the Association.

Section 2. Conducting Meetings.

(a) **Parliamentary Procedures.** Meetings of Members shall be conducted in accordance with a recognized system of parliamentary procedures or such parliamentary procedures as the Board may adopt.

(b) **Special Meeting Restriction.** Only those matters specified in the special meeting notice may be transacted at the meeting.

Section 3. Meeting Notices. Written notice of regular (including annual) and special meetings of the Members shall be given as follows:

(a) **Time of Notice.** Notice for a meeting shall be given not less than ten (10) nor more than ninety (90) days before the date of the meeting. As provided by the Corporations Code, a meeting called pursuant to petition of the Members shall be set at least thirty-five (35) but

not more than ninety (90) days after receipt by the **Board** of the request. Attendance at a meeting, in person or proxy, shall constitute a waiver of any defect in the notice, other than content.

(b) **Delivery of Notice.** Notice of each meeting shall be given to each **Member** at either (1) the address of the **Lot** or (2) the address supplied by such **Member** to the **Association** for the purpose of notice.

(c) **Content of Notice.** Notice of a meeting shall specify the place, day and hour of the meeting. It shall also specify those matters which, at the time the notice is given, are to be presented for action by the **Members**. Notice of a special meeting must state the purpose of the special meeting.

Section 4. Quorum Requirements. The presence at the meeting of fifty-one percent (51%) of the voting power shall constitute a quorum for any action. (Based on 54 **Lots**, this is 28 votes.) If a quorum is not represented, a majority of the **Members** present, in person or by proxy, may adjourn the meeting, without notice other than announcement at the meeting. Any such meeting shall be rescheduled for not less than five (5) nor more than thirty (30) days from the date of the original meeting. The quorum for any such rescheduled meeting when it reconvenes shall be twenty-five percent (25%) of the total voting power of the **Members**. (Based on 54 **Lots**, this is 14 votes.) If a time and place for the rescheduled meeting is not fixed by those in attendance at the original meeting or is subsequently changed, notice of the time and place of the rescheduled meeting shall be given to **Members** in the manner prescribed for regular meetings.

Section 5. Inspectors of Election. The **Board** may appoint one or three inspectors of election to act at any membership meeting to determine the number of memberships represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies, receive votes, ballots or consents, hear and determine all challenges and questions in any way arising in connection with voting, count and tabulate all votes, determine when the voting shall close, determine the result and do such other acts as may be proper to conduct the election or vote with fairness to all **Members**.

ARTICLE V **BOARD OF DIRECTORS**

Section 1. General Association Powers. The **Board of Directors** shall have the power and authority to conduct the business of the **Association**, except as may be limited by the **Governing Documents** or the law generally.

Section 2. Directors. All **Directors** shall be **Members** of the **Association**.

(a) **Number.** The business of the **Association** shall be conducted by a **Board** of five (5) **Directors**. Whenever possible, a minimum of 2 **Directors** shall have their primary residence within the **Hills Ranch Project**.

(b) **Transition.** In order to accomplish the transition to staggered terms, at the first annual meeting following adoption of these amended **Bylaws**, the **Owners** shall elect two (2) **Directors** for a term of one (1) year and three (3) **Directors** for a term of two (2) years. The

candidates receiving the highest number of votes shall be deemed elected for the two (2) year terms.

(c) **Term of Office.** After the transition to staggered terms is accomplished, the term for all Directors shall be two (2) years. The terms shall be staggered such each year there are either only two (2) or three (3) Directors to be elected. Each Director, including a Director elected to fill a vacancy or elected at a special meeting of **Members**, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

(d) **Compensation.** No Director shall receive compensation for any services rendered to the **Association** as a Director. If approved by the **Board**, a Director may, however, be reimbursed for his or her reasonable expenses actually incurred in the performance of his or her duties as a Director. Expenses for which reimbursement is sought shall be supported by a proper receipt or invoice signed and dated by the Director claiming the expense.

(e) **Determination of Election Results and Succession to Office.** Election to the **Board** shall be by confidential written ballot. The vacancies shall be filled by the **Persons** receiving the largest number of votes, up to the number of Directors to be elected. Each newly elected Director, if present, shall take office at the conclusion of voting. If not present, he or she shall take office after notification and acceptance of the election results.

(f) **Vacancies Generally.** A vacancy on the **Board** exists on the occurrence of any of the following:

- (1) the disqualification, death, resignation, or removal of a Director under section (g) below;
- (2) the failure of the **Members** to elect the proper number of Directors;
- (3) a declaration of vacancy by the **Board** for any reason permitted by law.

(g) **Resignation.** Any Director may resign by giving written notice. Such resignation shall be effective on presentation to the President or Secretary, unless the notice specifies a later time.

(h) **Removal.**

(1) **By Board.** The **Board** shall have the power, authority and discretion to remove a Director and declare his or her office vacant if he or she:

- (i) has been declared of unsound mind by a final order of court;
- (ii) has been convicted of a felony;
- (iii) fails to attend three (3) consecutive regular meetings of the **Board of Directors** that have been duly noticed or regularly scheduled;
- (iv) becomes more than thirty (30) days delinquent in the payment of any **Assessment**;

(2) **Arising From Court Action.** In the event there is a final judgment or order of any court concluding that a Director has breached his or her duties, the **Board of Directors** shall consult with counsel as to whether or not that court determination requires a declaration of vacancy.

(3) **By Members.**

(i) **Individual Director.** Any membership action to recall or remove a **Director** shall be conducted in accordance with the provisions of Corporations Code section 7222, as amended from time to time.

(ii) **Entire Board.** In order to recall the entire **Board**, at least a majority of a quorum must vote in favor of the recall.

(i) **Filling Vacancies.** The **Board** has the general power to fill vacancies. The exception is when the vacancy is created through removal of the **Director** by the **Members**.

(1) **By the Board.** The **Board** shall fill the vacancy by a majority vote of the remaining **Directors** (even if less than a quorum) or by the sole remaining **Director**.

(2) **By the Members.** If removed by the **Members**, the vacancy shall be filled by election by the **Members**. (See generally Article V, Section 2). The **Members** may also elect a **Director** to fill any vacancy not filled by the **Board**.

Section 3. Officers. The **Officers** of the **Association** shall be a **President** and a **Vice President**, **Secretary** and **Treasurer**. The **Board** may, by resolution, appoint such other **Officers** as the **Board** deems appropriate.

(a) **Election.** The election of **Officers** shall take place at the first meeting of the newly elected **Board** following each annual meeting of the **Members**.

(b) **Term of Office.** The **Officers** of this **Association** shall be elected annually by the **Board**. Each **Officer** shall hold office for one (1) year unless he or she resigns, is removed or is disqualified.

(c) **Resignation.** Any **Officer** may resign from his or her office by giving written notice. Such resignation shall be effective on presentation to the **President** or **Secretary**, unless the notice specifies a later time.

(d) **Removal.** Any **Officer** may be removed and/or reassigned by the **Board** with or without cause, at any regular or special meeting.

(e) **Vacancies.** A vacancy in any office may be filled by appointment by the remaining **Director(s)**. The **Officer** appointed to such vacancy shall serve the remainder of the term of the **Officer** he or she replaces.

(f) **Duties of Officers.** The duties of the Officers are as follows:

(1) **President.** The President shall be the Chief Executive Officer of the **Association** and shall, subject to the control of the **Board**, have general supervision, direction and control of the business and Officers of the **Association**. He or she shall (i) preside at meetings of the **Board**; (ii) see that orders and resolutions of the **Board** are carried out; (iii) sign contracts and other written instruments; and (iv) have the power to co-sign all checks and promissory notes. He or she shall have such other powers and duties as may be prescribed by the **Board** or the **Bylaws**.

(2) **Vice President.** In the unavailability, absence or disability of the President, the Vice President shall perform all the duties of the President and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President. He or she shall have such other powers and perform such other duties, including co-signatory powers on accounts, as from time to time may be prescribed by the **Board** or the **Bylaws**.

(3) **Secretary.** The Secretary is responsible for the **Association** records, minutes of all **Board** meetings and **Member** meetings, as well as **Member** rosters. The Secretary is also responsible for giving notice of all **Board** meetings and **Member** meetings. He or she shall keep the seal of the **Association**, if any. He or she shall have such other powers and perform such other duties, including co-signatory powers on accounts, as may be prescribed by the **Board** or by the **Bylaws**.

(4) **Treasurer.** The Treasurer shall be responsible for overseeing or maintaining adequate and correct accounts of business transactions of the **Association**. This shall include accounts of the **Association's** assets, liabilities, receipts, disbursements, reserves, and other matters customarily included in homeowner association financial statements. The financial records shall at all times be open to inspection by any Director.

The Treasurer shall be responsible for overseeing the deposit of all monies and other valuables in the name of and to the credit of the **Association** with such depositories as may be designated by the **Board**. The Treasurer shall be responsible for overseeing the disbursement of 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 of his or her transactions as Treasurer and of the financial condition of the **Association**. The Treasurer shall have such other powers and perform such other duties, including co-signatory powers on accounts, as may be prescribed by the **Board**, the President or these **Bylaws**.

The Treasurer shall be responsible for annually reviewing the provisions of the Davis-Stirling Common Interest Development Act (Civil Code Section 1350, and following) and making recommendations to the **Board** of any changes in financial procedures and reporting that may be required by new or amended sections which involve financial matters. The Treasurer may consult with the **Association's** attorney, certified public accountant, and/or manager on these matters and the **Board** may delegate to the manager the day-to-day financial business of the **Association**.

ARTICLE VI
BOARD MEETINGS

Section 1. Regular Meetings. Regular meetings of the **Board** shall be held at least quarterly. Regular meetings shall be held on the premises or within a reasonable distance and on the date and time and at a location fixed by the **Board**.

Section 2. Special Meetings. Special meetings of the **Board** shall be held when called by the President of the **Association**, or by any two Directors.

Section 3. Notice.

(a) Notice of the time and place of meetings of the **Board** (except emergency meetings) shall be given to **Members** at least four (4) days prior to the meeting. Such notice may be given by posting the notice at or near the Mail Kiosk, by mail or delivery of the notice to each **Lot**, or by newsletter or similar means of communication. Any attendance by a **Member** at a meeting shall constitute a waiver of any defect in the notice.

(b) Notice to a Director shall be given at least four (4) days prior to the meeting and may be delivered by mail, personally, by telephone (including an answering machine or voice message system), facsimile, or electronic mail or other similar means.

(c) Nothing contained in subsection (a) above shall be construed to prohibit emergency meetings of the **Board** if there are circumstances that could not have been reasonably foreseen which require immediate attention and possible action by the **Board**, and which of necessity make it impractical to provide notice as required by subsection (a) above. Such emergency meetings may be conducted by telephone, provided all participating **Board** members can hear one another.

Section 4. Quorum Requirements. A majority of the number of Directors shall constitute a quorum for the transaction of business. Every act done or decision made by the Directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the **Board**. In the event one or more Directors leaves the meeting, the remaining Directors may continue to transact business, provided that any action taken is approved by the same number of Directors as required at the outset of the meeting. If a quorum cannot be obtained because of vacancies on the **Board**, the remaining Directors may conduct business.

Section 5. Participation by Members. With the exception of executive sessions of the **Board** (see Section 7 below) and any meetings conducted by conference telephone or in a judicial proceeding, all scheduled **Board** meetings shall be open to attendance by **Members** of the **Association**, and **Members** shall be allowed to address the **Board**, except for Executive Sessions. Because the purpose of the **Board** meeting is for the **Board** to conduct the business of the **Association**, a reasonable time limit and time for **Members** to speak to the **Board** may be established by the **Board**. The agenda for **Board** meetings may include a specific time for **Member** questions and comments. The **Board** may, at its discretion, exclude any **Person** not a **Member** from the meeting.

Section 6. Executive Session.

(a) The **Board** may meet in executive session to address personnel matters, contracts with third parties, or actual or possible litigation.

(b) As to **Member** discipline, the **Board** has general discretion as to whether or not it will meet in executive session. Any disciplinary hearing must, however, be conducted in executive session if requested by the **Member** charged.

(c) The **Board** may adjourn any regular or special meeting for purposes of reconvening an executive session to discuss matters described above. Before adjourning into executive session at any open meeting, the topic(s) to be discussed in such session shall be announced, in general terms, to the **Members** in attendance at the meeting. The **Board** may also meet in executive session without notice to the **Members** or after adjourning from a regular or special meeting, for a purpose allowed by Section 6(a) above.

Section 7. Tape or Videotape Recording. No meeting of the **Board** or any Committee may be electronically recorded without the prior consent of the **Person** presiding over the meeting.

ARTICLE VII
COMMITTEES

Section 1. Generally. No committee shall have the power to:

- (a) take any final action on any matter that requires the approval of the **Members**,
- (b) fill vacancies on the **Board** or any committee,
- (c) amend or repeal **Bylaws** or adopt new **Bylaws**,
- (d) amend or repeal any resolution of the **Board** or
- (e) appoint committees of the **Board** or **Members**.

Section 2. Nominating Committee. The **Board** may appoint a Nominating Committee which shall consist of a Chairperson, who shall be a member of the **Board**, and two (2) or more **Members** of the **Association**. The Nominating Committee, if any, shall be appointed by the **Board** and announced at each annual meeting and shall serve from the close of that annual meeting until close of the next 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 that are to be filled. Nominations for election to the **Board** may also be made from the floor at the meeting. All candidates for **Board** positions shall provide a written or (if nominated from the floor) verbal candidate's statement.

Section 3. Other Committees. The **Board** may appoint in an advisory capacity such other committees as it deems appropriate in carrying out the purposes of the **Association**.

ARTICLE VIII
DUTIES AND POWERS OF THE BOARD

Section 1. Generally. The Board shall have the power or duty to:

- (a) Exercise all powers vested in the **Board** under the **Governing Documents** and under the laws of the State of California.
- (b) Appoint, remove and/or reassign the manager of the **Association**, if any, and **Association** employees; prescribe any powers and duties for such **Persons** that are consistent with law and the **Governing Documents**; and fix their compensation.
- (c) Appoint such agents and employ such other employees, including attorneys and accountants, as it sees fit to assist in the operation of the **Association**, and to fix their duties and to establish their compensation.
- (d) Enforce all applicable provisions of the **Governing Documents** relating to the control, management, and use of the **Lots** within Hills Ranch and the **Common Areas** and parking areas within Hills Ranch.
- (e) Contract for and pay premiums for fire, casualty, liability, director and officer error and omissions, earthquake and other insurance and bonds (including indemnity bonds) that may be required from time to time by the **Association**.
- (f) Contract and pay for maintenance, landscaping, utilities, materials, supplies, labor, and services that may be required from time to time in relation to the **Common Areas** and other portions or components of Hills Ranch which the **Association** is obligated to maintain, repair or replace.
- (g) Pay all taxes, special assessments and other assessments, and charges that are or would become a lien on any portion of the **Common Areas**.
- (h) Contract and pay for construction or reconstruction of any portion or portions of Hills Ranch that have been damaged or destroyed and that are to be rebuilt by the **Association**.
- (i) Delegate its duties and powers to the Officers of the **Association** or to committees established by the **Board**, subject to the limitations expressed in Article VII entitled **Committees**.
- (j) Levy and collect **Assessments** from the **Members**.
- (k) Perform all acts required of the **Board** under the **Declaration**.
- (l) Prepare budgets and maintain a full set of books and records showing the financial condition of the **Association** in a manner consistent with the Davis-Stirling Act and generally accepted accounting principles, and prepare an annual financial report for the **Members**.

(m) Appoint, at its discretion, a nominating committee for the nomination of **Persons** to be elected to the **Board** and prescribe rules under which said nominating committee is to act.

(n) Appoint such other committees as it deems necessary from time to time in connection with the business of the **Association**.

(o) Fill vacancies on the **Board** or in any committee, except a vacancy created by the removal of a Director by the **Members**.

(p) Open bank accounts on behalf of the **Association** and designate the signatories to such bank accounts, as long as proper safeguards are in place.

(q) Bring and defend actions in the best interests of the **Members** and/or the **Association**.

(r) Enter **Lots** as necessary, subject to the notice requirements of the **Declaration**, in connection with construction, maintenance, or emergency repairs for the benefit of the **Common Areas** or the **Members** in common.

(s) Adopt parliamentary procedures for conducting **Member** meetings.

(t) Negotiate, settle and/or otherwise dispose of disputes and litigation.

(u) After consultation with the **Association's** certified public accountant and/or counsel, at its discretion and/or in conjunction with a vote of the **Members**, establish and maintain an earthquake reserve fund. Such funds may be in conjunction with or in lieu of earthquake insurance.

(v) In the event of a natural disaster, the **Association** may, in conjunction with its **Assessment** powers as provided in the **Declaration** at Article IV, seek governmental assistance (such as from the Federal Emergency Management Agency).

(w) Borrow money, including granting a security interest in the **Association's** Reserve and Operating funds and **Assessment** stream, (without encumbering any **Association** real property).

Section 2. Association Finances. In addition to the terms of the **Bylaws** and the **Declaration**, the **Association** is governed by the Davis-Stirling Common Interest Development Act (Civil Code Section 1350, and following) including provisions related to financial documents, operating and reserve accounts and regular and special **Assessments**. Because the legislature periodically amends the Davis-Stirling Act, the **Board** may annually consult with the Treasurer or professional service provider as to any changes in financial procedures and reporting that may be required by new or amended sections and shall conform the **Association's** practices accordingly.

Section 3. Limitations on Power of Board. In addition to approval of the **Board**, certain actions must also have the affirmative vote or written assent of fifty-one percent (51%) of **Members**. These include:

(a) Pledge, deed in trust or otherwise encumber any or all of the **Association's** real or personal property as security for money borrowed or debts incurred.

(b) Dedicate, sell or transfer any part of the **Common Area** to any public agency, authority, or utility.

(c) Enter into a contract with a third party for the furnishing of goods or services to the **Common Area** or the **Association** for a term longer than one (1) year. This restriction shall not apply to:

(1) public utility contracts in which the rates charged for materials or services are regulated by the Public Utilities Commission, provided that the term of the contract may not exceed the shortest term for which the supplier will contract at the regulated rate;

(2) prepaid casualty or liability insurance policies not to exceed three years' duration, provided that the policies provide for short-rate cancellation by the insured;

(3) agreements for communications services and equipment (such as television, cable or satellite dish) not to exceed five (5) years in duration;

(4) agreements for sale or lease of security alarm and fire alarm equipment, installation and services not to exceed five (5) years in duration; or

(5) agreements that may be terminated without cause upon thirty (30) days notice.

Section 4. Inspection of Books and Records.

(a) **Member Inspection Rights.** Specific **Association** records shall be subject to the inspection of any **Member**, or his or her duly appointed representative, during reasonable business hours. **Members** may exercise such rights on ten (10) day written request to the **Association**, which request shall state the reason for reviewing the records. The inspection must be for a proper business purpose reasonably related to the business of the **Association** and/or the **Member's** interest in the **Association**. The specific records subject to inspection shall be as follows: annual reports, adopted budgets, reserve studies, copies of insurance policies, minutes of **Member** meetings, **Board** meetings (except executive session) and committee meetings, as well as the membership list of the **Association**. In the case of a request to inspect the **Association's** membership list, the **Association** may offer a reasonable alternative to inspection within ten (10) days after receiving the **Member's** written demand. The **Member** list may be composed of names of owners and mailing addresses only.

(b) **Director Inspection Rights.** Every Director, when acting on behalf of the **Board**, shall have a right at any reasonable time to inspect all books, records, documents, and minutes 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. The **Board** may adopt reasonable restrictions on review of ballots and proxies in order to preserve **Member** expectations of confidentiality.

(c) **Adoption of Reasonable Inspection Rules.** The **Board** may establish reasonable rules with respect to (1) notice of inspection, (2) hours and days of the week when inspection may be made, (3) location of the documents to be inspected and (4) payment of the costs incurred including reproducing copies of documents requested by the **Member**.

Section 5. Rules. The **Board** shall have the power to adopt and establish rules and policies consistent with the **Declaration**, governing the use of the **Project** and the conduct of the **Members** and their guests, tenants or others on the premises.

Section 6. Manager. The **Board** may employ the services of a manager to conduct the business of the **Association**. The **Board** may delegate to the manager any of the day-to-day duties and powers of the **Board** or its officers; however, the manager shall at all times remain subject to the general control of the **Board**.

Section 7. Enforcement. The **Association** shall have the power to enforce the provisions of the **Governing Documents**.

ARTICLE IX **DEFENSE AND INDEMNIFICATION**

Section 1. Member Responsibility. Each **Member** shall be liable to the **Association** for any damage to the **Common Areas** or areas which the **Association** must maintain, repair or replace caused by the conduct (including negligence or willful misconduct) of the **Member** or his or her family, guests, invitees or lessees, and each **Member** shall protect, defend, hold harmless and indemnify the **Association** for any third party claim arising out of such conduct.

Section 2. Indemnification by Association of Directors and Officers. The **Association** shall, to the fullest extent permitted by law, protect, defend and indemnify its past or present Directors, Officers and Committee members from potential liability for their activity while acting in good faith and engaged in **Association** business. Such protection may include that provided for in (a) the **Association's** insurance, including the liability insurance in the case of damage to person or property, and/or (b) the Corporations Code, specifically section 7237. In the event that any claim of indemnification is made to the **Association** by such individual, the **Association** shall, in a timely way, tender the claim to its broker and/or insurance carriers. To the extent that the individual seeking indemnification has exposure to any uninsured loss, the **Association** shall also submit the matter to its counsel for a legal opinion as to **Association** obligations.

Section 3. Advancement of Expenses. To the fullest extent permitted by law, the **Association** shall, consistent with Corporations Code section 7237(f), advance all costs of defense of an Officer, Director or Committee Member, if such costs of defense are not being provided by insurance.

Section 4. Insurance. The **Association** shall have the power to purchase and maintain that insurance commonly known as Directors and Officers Liability Insurance. It should be noted that

this is separate and distinct from general liability insurance which covers damage to **Persons** and property.

Section 5. Limitations on Personal Liability of Individual Directors/Officers.

(a) No action shall be brought against an individual Director or Officer unless expressly permitted by the provisions of Civil Code section 1365.7.

(b) No suit or action against a Director or Officer or other volunteer of the **Association** personally shall be sustainable in any court unless commenced within twelve (12) months of the date claimant knew or should have known of alleged misconduct and/or the inception of damage or injury.

**ARTICLE X
TAX EXEMPT STATUS**

Section 1. Tax-Exempt Status. The **Board** shall take all steps reasonably possible to ensure the continued tax exempt status of the **Association**.

Section 2. Filing. The **Board** shall cause to be timely filed an annual designation for tax-exempt status as may be required under federal or state law. It shall cause the **Association** to comply with the statutes, rules and regulations adopted by federal and state agencies pertaining to such exemptions.

**ARTICLE XI
MISCELLANEOUS**

Section 1. Amendment of Bylaws. These **Bylaws** may be amended (including replacement) by the affirmative vote of a majority of a quorum of **Members**. A quorum is fifty-one percent (51%) of the **Members**. Any amendment to or replacement of these **Bylaws** shall become effective immediately upon approval by the **Members**. The Secretary of the **Association** shall certify adoption of any duly approved amendment to the **Bylaws** and a copy of said certificate and the amendment shall be included in the **Association's** corporate records and sent to the **Members**.

Section 2. Conflict. In the case of any conflict between the **Articles** and these **Bylaws**, the **Bylaws** shall control; and in the case of any conflict between the **Declaration** and these **Bylaws**, the **Declaration** shall control.

Section 3. Fiscal Year. The fiscal year of the **Association** shall be May 1 through April 30, unless otherwise determined by the **Board**.

SECRETARY'S CERTIFICATION

As Secretary of the corporation known as the Hills Ranch Association, I hereby certify that the foregoing amended **Bylaws** consisting of 16 pages (excluding the Table of Contents), were duly adopted by the **Members** of said **Association** on the ____ day of _____, 2003 and that they are now the official **Bylaws**.

By:
Secretary of Hills Ranch Association

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