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FIRST AMERICAN TITLE COMPANY

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Midland Pacific Building Corporation
7305 Morro Road, Suite 207
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DECLARATION OF COVENANTS, CONDITIONS, AND RESTRICTIONS

Toscano Homeowner's Association
a California Nonprofit Mutual Benefit Corporation



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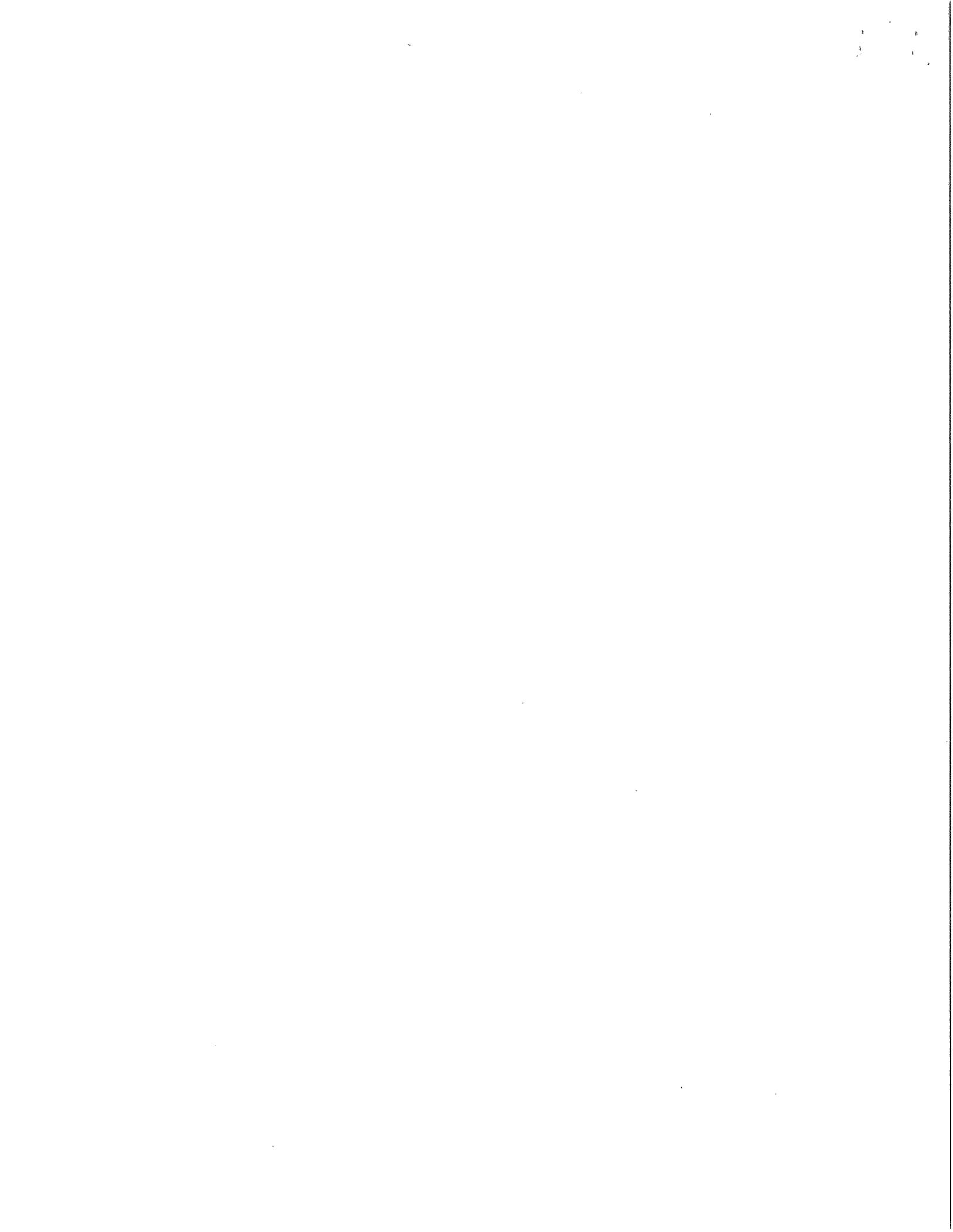
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RECITALS

THIS DECLARATION, made on the date set forth below in this instrument by Margarita Ranch SLO, LLC (the “Declarant”), is made with reference to the following facts:

A. *Location of the Property.* Declarant is the Owner of a certain piece of real property (the “Property”) located in the City of San Luis Obispo , County of San Luis Obispo , State of California, more particularly described as Lots 1 through 14, 72 through 80, 81, 84, and Lots 86 through 107 of Tract Map 2428-1, as recorded in Book ____, of Maps at Page ____, in the office of the County Recorder of the County of _____, State of California.

D. *The Project.* The development shall be referred to as the “Project” as defined by the provisions of this Declaration.

E. *Owner’s Interest.* Each Owner of a Lot will receive a separate interest in an individual Lot. Each Lot shall have appurtenant to it a membership in Toscano Homeowner’s Association, an incorporated association.

F. *Mutually Beneficial Restrictions.* Declarant intends by this document to impose upon the Project mutually beneficial restrictions under the general plan of improvement for the benefit of all Owners of Lots in the Project.

NOW, THEREFORE, Declarant hereby declares that the Project shall be held, conveyed, mortgaged, encumbered, leased, rented, used, occupied, sold, and improved subject to the declarations, limitations, covenants, conditions, restrictions, and easements contained in this Declaration, all of which are imposed as equitable servitudes pursuant to a general plan for the development of the Project for the purpose of enhancing and protecting the value and attractiveness of the Project, and every part of it, in accordance with the plan for improvements of the Project. All of the limitations, covenants, conditions, restrictions, and easements shall constitute covenants that run with the land and are binding upon Declarant and its successors and assigns, and all parties having acquiring any right, title, or interest in or to any part of the Project or the Property in the Project.

ARTICLE I

DEFINITIONS

1.1. *Annexable Property.* “Annexable Property” means the property included in the Remainder Lot of Tract Map 2428-1 which may subsequently be annexed to the Project.

1.2. *Articles.* “Articles” means the Articles of Incorporation of Toscano Homeowner’s Association, as amended from time to time.



1.3. *Assessment.* “Assessment” means that portion of the cost of maintaining, improving, repairing, operating, and managing the Project that is to be paid by each Owner as determined by the Association, and includes regular and special assessments.

1.4. *Association.* “Association” means the owners association which shall be Toscano Homeowner’s Association, an incorporated association, the Members of which shall be Owners of the Lots of the Project.

1.5. *Board of Directors.* “Board of Directors” means the governing body of the Association.

1.6. *Bylaws.* “Bylaws” means the Bylaws of the Association, as amended from time to time.

1.7. *Common Area.* “Common Area” means all real property owned by the Association for the common use and enjoyment of the Owners and shall include upon conveyance to the Association, the land designated as Lots 81, 84, and the easements for private streets as shown on the recorded final map of Tract, and any other plot of land which may be conveyed to the Association.

1.8. *Common Facilities.* “Common Facilities” means any improvements constructed in the Common Area and/or the easements for private streets.

1.9. *Common Expenses.* “Common Expenses” means any actual and estimated expenses of maintaining, repairing, operating and replacing the Common Area for that purpose as determined by the Board of Directors, and all sums designated Common Expenses by or pursuant to the Governing Documents.

1.10. *Common Interest.* “Common Interest” means the Common Area that is owned by the Association.

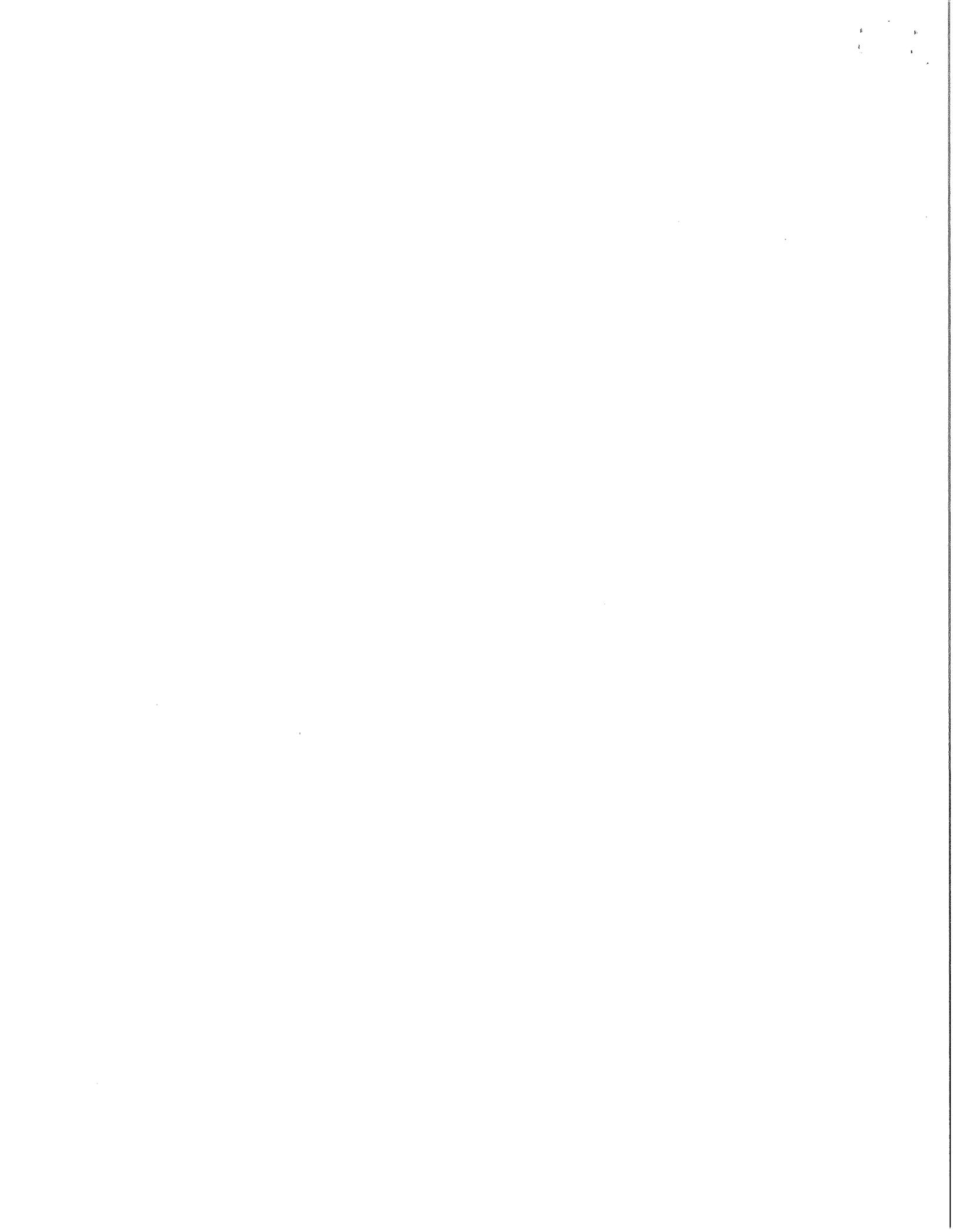
1.11. *Declarant.* “Declarant” means Margarita Ranch SLO, LLC , and its successors and assigns.

1.12. *Declaration.* “Declaration” means this Declaration of Covenants, Conditions and Restrictions for Tract 2428-1, as amended or supplemented from time to time.

1.13. *Eligible Holder Mortgages.* “Eligible Holder Mortgages” means mortgages held by “Eligible Mortgage Holders”.

1.14. *Eligible Insurer or Guarantor.* “Eligible Insurer or Guarantor” means an insurer or governmental guarantor of a First Mortgage who has requested notice of certain matters from the Association in accordance with the provisions of this Declaration.

1.15. *Eligible Mortgage Holder.* “Eligible Mortgage Holder” means a First Lender who has requested notice of certain matters from the Association in accordance with the provisions of this Declaration.



1.16. *First Lender*. “First Lender” means any person, entity, bank, savings and loan institution, insurance company, or financial institution holding a recorded First Mortgage on any Lot.

1.17. *First Mortgage*. “First Mortgage” means any recorded mortgage made in good faith and for value on a Lot with first priority over other mortgages on that Lot.

1.18. *Foreclosure*. “Foreclosure” means the legal process by which the mortgage property of a borrower in default under a mortgage is sold, and the borrower’s interest in that property is sold, pursuant to California Civil Code section 2924 *et seq.*; sale by the court pursuant to California Code of Civil Procedure section 725a *et seq.*; or transferred by deed (or assignment) in lieu of foreclosure.

1.19. *Lot*. “Lot” means any plot of land numbered Lots 1 through 14, 72 through 80, 81, 84, and Lots 86 through 107 of Tract Map 2428-1, inclusive as shown on the Subdivision Map, and all lots included within any Annexable Property.

1.20. *Member*. “Member” means a person entitled to membership in the Association as provided by this Declaration.

1.21. *Mortgage*. “Mortgage” means a deed of trust as well as a mortgage, both of which are security for the performance of an obligation.

1.22. *Mortgagee*. “Mortgagee” includes a beneficiary or a holder of a deed of trust as well as a mortgagee.

1.23. *Mortgagor*. “Mortgagor” includes the trustor of a deed of trust as well as a mortgagor.

1.24. *Owner*. “Owner” means the record holder of title to a Lot in the Property. This includes any person having fee simple title to any Lot, but excludes persons, entities or trusts having any interest merely as security for the performance of an obligation. If a Lot is sold under a contract of sale and the contract of sale is recorded, the purchaser, rather than the fee owner, shall be considered the Owner from the date the Association receives written notice of the recorded contract.

1.25. *Person*. “Person” means a natural person, a corporation, a partnership, a trust, or other legal entity

1.26. *Phase*. “Phase” means two or more Lots and/or Common Area which will simultaneously be made subject to the provisions of this Declaration.

1.27. *Project*. “Project” means Lots 1 through 14, 72 through 80, 81, 84, and Lots 86 through 107 of Tract Map 2428-1 subject to this Declaration as described on the Subdivision Map, the Annexable Property, and all improvements on the real property.



1.28 *Project Documents.* “Project Documents” means this Declaration, as amended from time to time, together with the other basic documents used to create and govern the Project, including the Subdivision Map, the Conditions of Approval, the Articles, the Bylaws, (but excluding unrecorded Rules adopted by the Board of Directors or the Association).

1.29 *Rules.* “Rules” means the rules adopted from time to time by the Association pursuant to the terms of this Declaration.

1.30 *Subdivision Map.* “Subdivision Map” means the final recorded tract map of Tract 2428-1, which is recorded in the book of Maps at the pages referred to above in the office of the County Recorder of the County of San Luis Obispo , State of California, and any subdivision maps for subsequently annexed land.

ARTICLE II

DESCRIPTION OF LAND AND IMPROVEMENTS, DIVISION OF PROPERTY, AND CREATION OF PROPERTY RIGHTS

2.1. *Description of Property.* If the Project is completed as proposed, the Property will consist of 161 residential Lots; 5 Common Area parcels to be held in fee by the Association, and easements for private streets and private access and parking.

2.2. *Division of Property.* The property is divided as follows:

A. *Lots.* The boundaries of each of the Lots shall be as separately shown and as set forth on the Subdivision Map and the subdivision maps of all subsequently annexed property.

B. *Common Area.* The Phase 1 Common Area shall consist of the entirety of Lots 81 and 84 and the easements for private streets shown on the Subdivision Map. The Common Area within each Phase shall be transferred to the Association prior to, or coincident with, the first transfer or conveyance of a subdivision interest by the subdivider. The subdivider shall retain for a period not to exceed five (5) years the right of access to the Common Area and easements private streets for the purposes of completing the improvements thereon.

2.3. *Exclusive Ownership and Possession by Owner.* Each Owner shall be entitled to exclusive ownership and possession of his/her Lot. An Owner shall be deemed to own the utilities running through the Common Area structure surrounding the Owner’s Lot which exclusively serves said Lot and shall be responsible for the maintenance for such utilities, except for those utilities being maintained by the Association under Section 6.1. Any conveyance or transfer of a Lot shall include the Owner’s membership in the Association and any other benefits or burdens appurtenant to that Owner’s Lot. The Common Interest appurtenant to each Lot is declared to be permanent in character and cannot be altered without the consent of all the Owners, as expressed in an amended Declaration.



2.4 *Easement of Use.* All Common Area shall be available for use by all Owners.

2.5. *Delegation of Use.* Any Member may delegate his or her right of enjoyment to the Common Area facilities to persons who are actually occupying that Owner's Lot and who are members of that Owner's staff, or that Owner's invitees, guests, tenants or contract purchasers. The guests of a legal or equitable Owner of lessees shall be entitled to use of the Common Area, subject to such Rules as the Board of Directors may adopt.

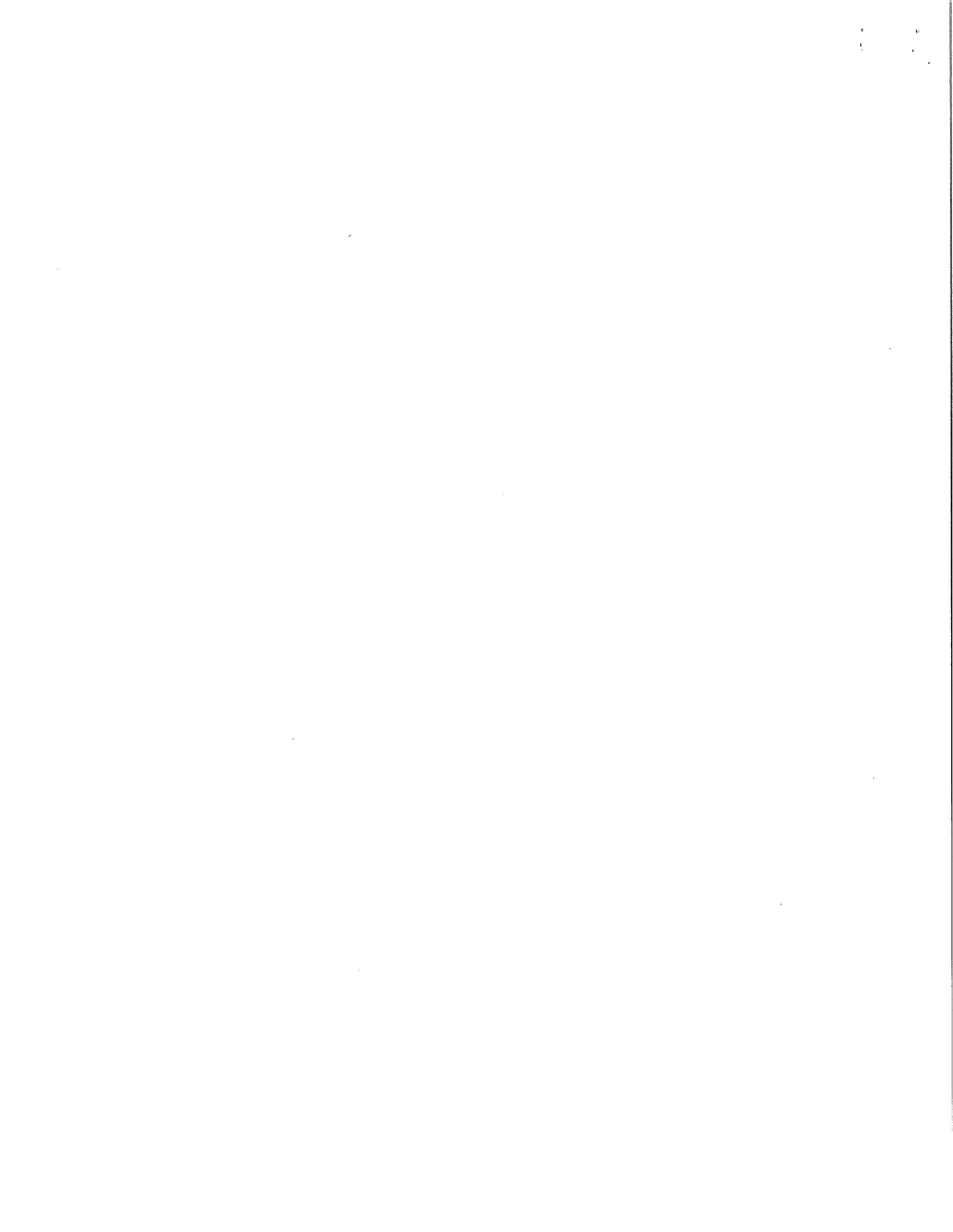
2.6. *Encroachments.* Each Lot and its Owner shall have and is granted an easement over all adjoining Lots and the Common Area for the purpose of accommodating any encroachment due to engineering errors, errors in original construction, settlement or shifting of structures, or any other cause as long as the encroachment remains. However, in no event shall a valid easement for encroachment exist in favor of an Owner if the encroachment occurred due to willful misconduct of the Owner. An encroachment permit from the City shall be required prior to encroaching within a public easement.

A. In the event a structure on any Lot is partially or totally destroyed, and then repaired or rebuilt, the Owner of each Lot agrees that minor encroachments over adjoining Lots and the Common Area shall be permitted and there shall be valid easements for the maintenance of the encroachments as long as they shall exist. Each Lot and its Owner shall have and is granted an easement, appurtenant to such Lot over each adjoining Lot or the Common Area, as the case may be, for retaining walls and other structural components as originally constructed or, if partially or totally destroyed, as subsequently rebuilt or repaired in accordance with the original plans and specifications.

B. There shall be, in addition, valid and appropriate easements for the maintenance of such encroachments.

2.7. *Association's Easement and Grant of Easements.* The Association shall have an easement over, under and through the Common Area and each Lot where necessary for any construction, maintenance, repair or other functions required of the Association by this Declaration. The Association shall have the right to grant exclusive and non-exclusive, and specific as well as blanket, easements in, on, over, under, and through the Common Area for public and private access, public and private utilities, and drainage purposes.

2.8. *Other Easements.* Each Lot and its Owner and the Association, as the case may be, is declared to be subject to all easements, dedications, and rights-of-way granted or reserved in, on, over, and under the Property and each Lot.



2.9. *Rights of Entry and Use.* The Lots and Common Area shall be subject to the following rights of entry and use:

A. The access rights of the Association to maintain, repair, or replace improvements on property located in the Common Area and the individual lots as may be required by Section 6.1.A.

B. The access rights of each residential Lot Owner to maintain, repair, or replace improvements or property located on his or her individual Lot.

B. The rights of the Owners and the Association to install, maintain, repair, or replace public and private accessways, public and private utilities, and drainage structures.

C. The encroachment easements described above.

E. The rights of Owners to make improvements or alterations authorized by California Civil Code section 4760, subject to the provisions of this Declaration to the extent applicable.

F. Solid waste collection vehicles, utility service vehicles, and emergency vehicles shall have the right to access the private access easement areas shown on the Subdivision Map.

2.10. *Partition Prohibited.* The Common Area shall remain undivided as set forth in the provisions of this Declaration. Except as provided by California Civil Code section 4610, no Owner shall bring any action for partition of the Common Area, it being agreed that this restriction is necessary in order to preserve the rights of the Owners with respect to the operation and management of the Project. Judicial partition by sale of a single Lot owned by two or more persons and division of the sale proceeds is not prohibited.

ARTICLE III

USES OF THE PROPERTY

3.1 *Residential Uses.* Lots shall be restricted to only those residential uses approved by the City of San Luis Obispo, and no part of the Project shall be used or caused, allowed, or authorized to be used in any way, directly or indirectly, for any other use. Secondary dwelling units are expressly prohibited. Notwithstanding the above, Declarant, its successors and assigns, may use the Project and Lots for models and model sites, advertising and other purposes incidental and necessary for completion of construction and sale purposes; provided however, Declarant shall not unreasonably interfere with any Lot Owner's use or enjoyment of his/her Lot.

3.2 *Delegation of Rights of Use.* Any Owner may delegate his rights of use and enjoyment of the Project, including any recreational facilities, to the members of his family, his guests, tenants, employees, and invitees, and to such other persons as may be permitted by the Bylaws and the Association Rules, subject however, to this Declaration. However, if an Owner



has sold his Lot to a contract purchaser or has leased or rented it, the Owner, members of the Owner's family, guests, tenants, employees, and invitees shall not be entitled to use and enjoy any of such rights in the Project, while the Owner's Lot is occupied by the contract purchaser or tenant. Instead, the contract purchaser, or tenant, while occupying such Lot, shall be entitled to use and enjoy such rights, including the recreational facilities, and can delegate the rights of use and enjoyment in the same manner as if such contract purchaser or tenant were an Owner during the period of his occupancy. Each Owner shall notify the Secretary of the Association of the names of any contract purchasers or tenants of such Owner's Lot. Each Owner, contract purchaser, or tenant also shall notify the Secretary of the Association of the names of all persons to whom such Owner, contract purchaser, or tenant has delegated any rights of use and enjoyment and the relationship that each such persons bears to the Owner, contract purchaser, or tenant. Any delegated rights of use and enjoyment are subject to suspension to the same extent as are the rights of Owners. No such delegation shall relieve an Owner from liability to the Association or to other Owners for payment of assessments or performance of the covenants, conditions, and restrictions contained in this Declaration. Any lease, rental agreement, or contract of sale entered into between an Owner and a tenant or contract purchaser of a Lot shall require compliance by the tenant or contract purchaser with all of the covenants, conditions, and restrictions contained in this Declaration, which provision shall be for the express benefit of the Association and each Owner. The Association and each Owner shall have a right of action directly against any tenant or contract purchaser of an Owner, as well as against the Owner, for nonperformance of any of the provisions of this Declaration to the same extent that such right of action exists against such Owner.

3.3. *Leasing.* An Owner is permitted to lease or rent his Lot for a period not less than ninety (90) days. The lease must be for the entire Lot and not a portion thereof. No Lot shall be used for operation of a timesharing, fraction sharing, or similar program on a fixed or floating time schedule over a period of years. Any lease or rental agreement shall be in writing and any tenant shall abide by and be subject to all terms and provisions of the Project Documents and the Association Rules. All such written agreements shall specify that failure to abide by such provisions shall be a default under the lease or rental agreement. All Owners and tenants shall be subject to the following:

A. Each Owner shall provide a copy of the Project Documents and Association Rules to each tenant and members of the tenant's family of his/her Lot. By becoming a tenant, each tenant agrees to be bound by said documents, and recognizes and accepts the right and power of the Association to evict a tenant for any violation by the tenant of these documents.

B. Each Owner who lease or rent his/her Lot shall promptly notify the Secretary of the Association in writing of the names of all tenants and members of the tenant's family occupying such Lot and shall provide the Secretary of the Association with a complete copy of the lease. Each Owner leasing his/her Lot shall promptly notify the Secretary of the Association of the address and telephone number where such Owner can be reached.

C. Any failure of a tenant to comply with the Project Documents and/or the Association Rules, shall be in default under the lease, regardless of whether expressly so



provided. In the event of any such default, the Owner immediately shall take all actions to cure the default including, if necessary, eviction of the tenant.

D. If any tenant is in violation of the provisions of the Project Documents or Association Rules, the Association may bring an action in its own name and/or in the name of the Owner to have the tenant evicted and/or recover damages. The Association shall give the tenant and Owner notice in writing of the nature of the violation and twenty (20) days from the mailing of the notice in which to cure the violation before the Association may file for eviction.

E. If the Court finds that the tenant is violating, or has violated, any of the provisions of the Project Documents and/or the Association Rules, the Court may find the tenant guilty of unlawful detainer notwithstanding the fact that the Owner is not the plaintiff in the action, and/or the tenant is not otherwise in violation of tenant's lease. For purposes of granting an unlawful detainer against the tenant, the Court may assume that the Owner or person in whose name the contract (the lease or rental agreement) was made was acting for the benefit of the Association. The remedy provided by this subsection is not exclusive and is in addition to any other remedy or remedies which the Association has. The Association may recover all its costs, including court costs and reasonable attorney's fees incurred in prosecuting the unlawful detainer action in accordance with applicable law.

3.4. *Restrictions on Use of Lots.* The Lots shall be subject to the following restrictions:

A. Each Owner of a Lot shall be responsible for maintaining all improvements on his/her Lot, including the equipment and fixtures in the structure and its walls, roof, ceilings, windows and doors in a clean, sanitary, workable and attractive condition. Each Owner has complete discretion as to the choice of furniture, furnishings, and interior decorating; except that windows can be covered only by drapes, shutters, or shades and cannot be painted or covered by foil, cardboard, or other similar materials.

(1) Each Owner is further required to maintain the grounds and landscaping on the Lot if it is not already being maintained by the Association. All landscaping shall be neatly trimmed; properly cultivated and maintained in a neat and orderly condition and in a manner designed to enhance its appearance. No plants or seeds infected with noxious insects or diseased plants shall be brought, grown, or maintained within the Project. Each Owner shall also maintain all porches, patios, decks, balconies or other additions or improvements built or maintained on his/her Lot.

(2) Each Owner shall maintain, repair, and/or replace any drainage facilities located on his/her Lot. At no time may an Owner fill in, change, and/or landscape in or around drainage facilities that change the contour of the drainage facilities installed by the Declarant.

(3) It shall be the equal obligation and responsibility of the adjacent Owners to share equally the costs of maintenance, repair or replacement of fences and/or walls bordering more than one Lot.



B. Any building, landscaping or appurtenance of any kind shall require written approval by the Architectural Committee. No building, landscaping or appurtenance of any kind shall be erected, placed or altered on any Lot in a manner that is inconsistent with the original architecture of the Project. This shall include harmony of external design and material with existing structure and as to location with respect to topography and finish grade elevation.

C. Each Owner, their successors and heirs shall comply with the following improvement restrictions and design criteria:

(1) Modification of anything permanently or temporarily, on the outside portions of the home is not allowed, whether such portion is improved or unimproved, except in strict compliance with this section of the Declaration. This shall include without limitation, signs, basketball hoops, swing sets and similar sports/play equipment, clotheslines, garbage cans, wood piles, above ground swimming pools, decks, patio covers and similar structures, walls, dog runs, animal pens, fences of any kind.

(2) No Owner shall erect, construct or install a tent, shack, basement, garage, or outbuilding at any time to be used on his/her Lot as a residence either temporarily or permanently.

(3) No Owner shall erect, construct, or install outdoor storage units except in designated storage areas.

(4) Replacement of all fences and/or walls on each Lot in this Project shall conform to the original fencing and/or walls installed by the Declarant.

(5) Fences shall not extend into the front setback beyond the front of the individual dwelling.

(6) All fireplaces shall be gas-supplied, rather than wood-burning.

(7) Where the finished pad elevation for a lot along the westerly or southerly boundary of project is four or more feet higher than the highest pad elevation of the lots adjacent to it within the Chumash Mobile Home Park, El Camino Estates, or approved Tract Map 2353, development of said higher lot within this project shall be limited to a single story structure. In no instance shall rear yard setbacks for lots adjoining existing Chumash Village Mobile Home Park, El Camino Estates or approved Tract Map 2353 be less than 20 feet.

(8) Holiday decorations are welcome to be displayed 30 days prior to the holiday and must be removed 10 days after the holiday.

D. No temporary structure, trailer, camper, mobile home, recreational vehicle, boat, inoperable automobile or similar equipment shall be permitted on any Lot.

E. No sign of any kind shall be displayed to the public view on any Lot except one



(1) sign of not more than five (5) square feet advertising the property for sale or rent, or signs used by the builder to advertise the property during the construction and sales period or signs used in support of political candidates in accordance with state and state law.

F. No animals, reptiles, rodents, birds, fish, livestock, or poultry shall be kept in or on any Lot or elsewhere within the Project except for a reasonable number of domestic house pets of a kind approved by the Board in its discretion. No such animals shall be kept, bred, or raised for commercial purposes. A reasonable number shall ordinarily include no more than two (2) pets per household; provided however, a reasonable number may be more or less depending on whether the pets constitute a nuisance to other Owners. Pets must be on leash and under the control of owners at all times when outside the confines of the Lot. Owner(s), their family members, guests, invitees, and tenants bringing or keeping a pet on his/her Lot shall be liable to other Owners, their family members, guests, invitees, and tenants for any unreasonable noise or damage to a person or property caused by their pet(s). Owners are required to immediately clean up and dispose of all pet waste. Animal waste must be placed into plastic bags and properly tied before disposing in an appropriate receptacle.

G. No noxious or offensive conduct shall be allowed to occur upon any Lot nor shall anything be done or maintained thereon which may be or become any annoyance or nuisance to the Project or that in any way interferes with the quiet enjoyment of occupants of the remaining Lots or detract from their value. These restrictions include, but are not limited to, the disposal of any noxious, illegal, toxic or hazardous material such as gasoline, used motor oil, kerosene, cleaning solvents or pesticides. Responsibility for clean-up and costs of clean up for such infractions shall be the sole responsibility and obligation of the Lot Owner violating this restriction. The use and discharge of firecrackers and other fireworks is also prohibited.

H. Exterior antennas and satellite dishes greater than thirty-six (36) inches in diameter or diagonal measurement, and exterior antennas and satellite dishes designed for purposes other than the reception of video programming and as provided in California Civil Code section 4725 are subject to approval by the Board of Directors.

I. Any exterior clothes drying facilities erected or maintained in private yards must be substantially screened from view from the street or any other residence in the Project. There shall be no exterior drying or laundering of clothes on balconies, patios, porches, fences or other outside areas.

J. No illegal activity of any kind shall be carried on upon any portion of the Project or on any Lot. Nor shall an activity occur that shall increase the rate of insurance on an adjacent Lot or in connection with the Common Area.

K. All rubbish, trash and garbage shall be regularly removed from the Lots in accordance with City required provisions for trash collection and shall not be allowed to accumulate on any Lot. Trash, garbage and rubbish shall be kept only in sanitary containers. All equipment, garbage cans or recycling containers, woodpiles, or storage piles shall be screened from view of other Lots, streets and driveways, and Common Area. Garbage and recycling



containers may be set out no more than 24 hours prior to pick up, and must be replaced in their usual storage place within 12 hours after pickup. Outside burning of trash, leaves, debris or other materials is prohibited. It is prohibited to dump any landscaping materials, trash, garbage, or other debris on, over, or across the Common Area. The clean-up and costs of clean-up for such an infraction shall be the sole responsibility and obligation of the Owner violating this restriction, and said Owner shall be obligated to clean up and/or pay the clean-up costs for any family member, visitor, or tenant who has violated this restriction.

L. All easements for private streets and private access and parking, sidewalks, entries and passages outside of each Lot shall remain unobstructed and shall not be used for purposes other than ingress and egress to and from Lots. Signs in accordance with California Vehicle Code section 22658 shall be posted and maintained. Vehicles in violation shall be removed at the owner's expense. Garage spaces shall not be converted into any use (such as a recreational room or storage) that would prevent its use as parking space for the number of vehicles the space was designed to contain, typically a two car maximum.

M. No motor vehicle shall be constructed, reconstructed or repaired within the Project unless enclosed inside a private garage and no displaced or inoperable vehicle, including vehicles without wheels) or an engine shall be stored in the Project unless enclosed in a private garage, provided, however, that the provision of this section shall not apply to emergency vehicle repairs.

N. None of the Lots shall be further divided by subdivision map or parcel map, or other means.

3.5. *Restrictions on Use of Common Area and Common Facilities.* The Common Area and Common Facilities shall only be used for purposes compatible with, and commonly associated with common areas located within similar residential developments in California, subject to the following restrictions:

A. No noxious or offensive conduct shall be allowed to occur within any Common Area nor shall anything be done or maintained thereon which may be or become any annoyance or nuisance to the Project or that in any way interferes with the quiet enjoyment of occupants of the Lots or detract from their value. These restrictions include, but are not limited to, the disposal of any noxious, illegal, toxic or hazardous material such as gasoline, used motor oil, kerosene, cleaning solvents or pesticides. Responsibility for clean-up and costs of clean up for such infractions shall be the sole responsibility and obligation of the Lot Owner violating this restriction. The use and discharge of firecrackers and other fireworks is also prohibited.

B. No illegal activity of any kind shall be carried on upon any portion of the Common Area. Nor shall an activity occur that shall increase the rate of insurance on any of the Lots in the Project.

C. All easements for private streets and private access and parking shall remain unobstructed and shall not be used for purposes other than ingress and egress to and from Lots.



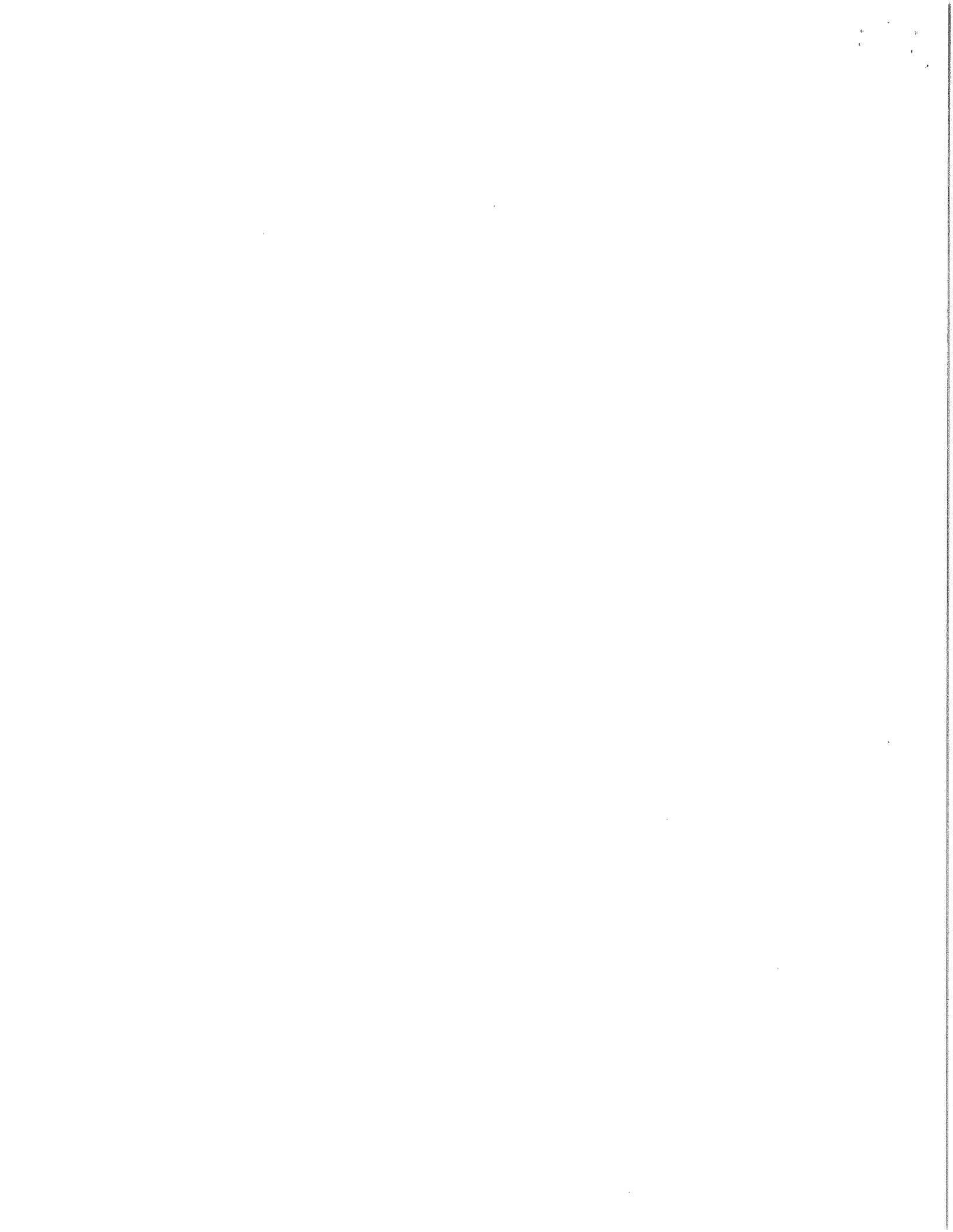
Signs in accordance with California Vehicle Code section 22658 shall be posted and maintained. Vehicles in violation shall be removed at the owner's expense. Parking in the easements for private streets and private access and parking shall be allowed in designated parking areas only.

(1) The applicable Public Agency shall be allowed to impose and enforce all provisions of the applicable California Vehicle Code sections or local ordinances contained within the Project. No unlicensed motor vehicles shall be operated on the Project. In addition and in compliance with the Vehicle Code 112658.2 the Association may cause the removal of any vehicle wrongfully parked in the Common Area property, including a vehicle owned by an occupant. If the identity of the vehicle owner is known or readily ascertainable, the President of the Association shall, within a reasonable time, notify the owner by first class mail of said removal. If the identity of the owner is not known or ascertainable, the Association must send a written report of the removal by mail to the California Department of Justice in Sacramento, provided the vehicle has not been returned to the owner within one hundred twenty (120) hours. Immediately after the vehicle has been removed, the Association must notify the local traffic law enforcement agency of said removal. The notice must include a description of the vehicle, the license plate number and the address from which the vehicle was removed. However, the vehicle may be removed without notice if it is parked in a marked fire lane, within fifteen (15) feet of a fire hydrant, or if it interferes with an entrance or exit of the Project and driveways located thereon. The Association shall not be liable for any damages incurred by the vehicle owner because of removal in compliance with this section or for any damage caused to the vehicle caused by the removal, unless such damage resulted from the intentional or negligent act of the Association or any person causing the removal or removing the vehicle. The City of San Luis Obispo has the right to tow away vehicles on a complaint basis which are parked in unauthorized places. Owner(s) shall jointly and individually reimburse the City of San Luis Obispo for all measures required to enforce the aforesaid prohibitions against parking. Owner(s) understand that the city cannot regulate vehicle usage or hazards upon said common access driveway and shall jointly and individually defend and hold the city harmless from all claims for damages or liability arising from the alleged failure of the City to regulate vehicles or to provide protection from hazards upon said driveway.

(2) Any affected property owner may avail himself of the vehicle-removing authority granted private property owners in California Vehicle Code Section 22658 when any vehicle is parked in the common-access driveway so as to interfere with entry or access to a parcel it serves.

(3) No trailer, camper, mobile home, commercial vehicle, recreational vehicle, truck having a carrying capacity of greater than one-half (1/2) ton, or van having a seating capacity in excess of eight (8) persons, boat, inoperable automobile, or similar equipment shall be permitted to be parked, stored or otherwise remain upon any area within the Common Area except in any special recreational vehicle parking areas that may be established within the Project.

(4) Temporary parking of recreational vehicles will be permitted for a period up to 24 hours for packing and unpacking purposes only.



(5) Temporary parking of commercial vehicles, trucks or vans which are otherwise prohibited vehicles shall be allowed for providing services to Owners within the Project and during the performance of commercial activities permitted within the Project.

(6) Permitted vehicles shall include sedans (or standard-size vans or pickup trucks) which are used both for business and personal use, provided that any signs or marketing of a commercial nature on such vehicles shall be unobtrusive and inoffensive as determined by the Board.

(7) No temporary structure, trailer, camper, mobile home, recreational vehicle, boat, inoperable automobile or similar equipment shall be permitted on the Common Area.

D. No sport apparatus, such as portable basketball back boards, tether-ball or fixed sport apparatus may be placed on any portion of the Common Area or the streets within the Project.

E. No fences, statuary or structures of any kind other than those installed and maintained by the Association shall be installed or erected in any portion of the Common Area.

F. No plants or other improvements other than those installed and maintained by the Association shall be planted, installed or maintained in the Common Area.

G. No living tree, plant, or other vegetation located in any portion of the Common Area shall be cut, trimmed, pruned, removed, replaced, or otherwise altered without prior approval from the City of San Luis Obispo. The adobe sanicle shall not be removed without the prior approval of the Department of Fish and Wildlife.

H. None of the Common Area shall be further divided by subdivision map or parcel map, or other means.

ARTICLE IV

ASSOCIATION, ADMINISTRATION, MEMBERSHIP AND VOTING RIGHTS

4.1. *Notice.* The recordation of this Declaration shall be deemed proper notice of this Declaration and the provisions thereof. Each Owner shall be provided a final copy of this Declaration by the Declarant and agrees to provide a copy of same to his/her successor in interest. Each Owner, by acceptance of a deed, successors in interest agree to be bound by the provisions of this Declaration. Failure to read or understand this Declaration does not obviate any Owner from his/her duties and obligations under this Declaration.

4.2. *Association to Manage Common Areas.* The management of the Common Area shall be vested in the Association, in accordance with its Bylaws. The Owners of all the Lots covenant



and agree that the administration of the Property shall be in accordance with the provisions of this Declaration, the Articles, and the Bylaws. The Owners of all the Lots further covenant and agree that the Bylaws cannot conflict with this Declaration, the Articles or California statute.

4.3. *Powers Granted to a Nonprofit Mutual Benefit Corporation.* Pursuant to California Civil Code section 4805, the Association shall exercise powers granted to a nonprofit mutual benefit corporation, as enumerated in the California Corporations Code section 7140.

4.4. *Membership.* The Owner of a Lot, upon becoming the Owner, shall automatically become a Member of the Association until the ownership ceases for any reason, at which time the membership in the Association shall automatically cease. Membership shall be held in accordance with the Articles and Bylaws.

4.5. *Transferred Membership.* Membership in the Association shall not be transferred, encumbered, pledged, or alienated in any way, except upon the sale or encumbrance of the Lot to which it is appurtenant, and then only to the purchaser, in the case of a sale, or mortgagee, in the case of an encumbrance of the Lot. On any transfer of title to an Owner's Lot, including a transfer on the death of an Owner, membership passes automatically with title to the transferee. A mortgagee does not have membership rights until it obtains title to the Lot by Foreclosure or a deed in lieu of Foreclosure. Any attempt to make a prohibited transfer is void. No Member may resign his or her membership while retaining ownership of a Lot. On notice of a transfer, the Association shall record the transfer on its books.

4.6. *Voting Rights.*

A. Each owner of a subdivision interest other than the Subdivider is a Class A member. Class A membership entitles the holder to one (1) vote for each subdivision interest owned.

B. The Subdivider is a Class B member. Class B membership entitles the holder to three (3) votes for each subdivision interest owned.

C. The Class B membership shall be irreversibly converted to Class A membership on the first to occur of the following: (i) a prescribed date certain which is not later than the second anniversary of the first conveyance of a subdivision interest in the most recent phase of the development, or a prescribed date certain which is not later than the fourth anniversary of the first conveyance of a subdivision interest in the first phase of the development.

D. Except in those subdivision offerings where there is a subsidization plan which otherwise provides voting rights attributable to subdivision interest shall not vest until assessments against those interests have been levied by the Association.

4.7 *Agent for Process of Service.* The Secretary of the Association shall be the agent for process of service.



ARTICLE V

ASSESSMENTS

5.1. *Creation of the Lien and Personal Obligation of Assessments.* Each Owner of any Lot by acceptance of a deed for that Lot, whether or not it shall be expressed in that deed, covenants and agrees:

A. To pay the Association Annual Assessments or charges, and Special Assessments for purposes permitted in this Declaration, these Assessments to be established and collected as provided in this Declaration; and

B. To allow the Association to enforce any assessment lien established under this Declaration by non-judicial proceedings under a power of sale or by any other means authorized by law.

C. The annual and special Assessments, together with interest, late charges, collection costs, and reasonable attorneys' fees, shall be a charge on the Lot, and shall be a continuing lien upon the Lot against which each Assessment is made, the lien to become effective upon recordation of a notice of delinquent Assessment. Each Assessment, together with interest, late charges, collection costs and reasonable attorneys' fees, shall also be the personal obligation for delinquent Assessments of the person who was the Owner of the Lot when the Assessment fell due. The Owner's personal obligation for delinquent Assessments shall not pass to his or her successors in title unless expressly assumed by them. No Owner shall be exempt from liability for payment of Assessments by waiver of the use or enjoyment of any of the Common Areas or by the abandonment of the Owner's Lot.

D. The interest of any Owner in the amounts paid pursuant to any Assessment upon the transfer of ownership shall pass to the new Owner. Upon termination of these covenants for any reason, any amounts remaining from the collection of Assessments after paying all amounts properly charged against those Assessments shall be distributed to the then Owners on the same pro rata basis upon which the Assessments were collected.

5.2. *Purpose of Assessments.* The Assessments levied by the Association shall be used exclusively to promote the economic interests, health, safety, and welfare of all the Owners of the Property, and to enable the Association to perform its obligations under this Declaration. Any funds designated as reserve funds shall not be expended for any purpose other than those purposes set forth in California Civil Code section 5510(b).

5.3. *Assessments.*

A. *Regular Assessments.* The Board of Directors shall establish and levy annual Regular Assessments in an amount that the Board of Directors estimates will be sufficient to raise the funds needed to perform the duties of the Association during each fiscal year. Annual Assessments shall be levied against each Owner of a Lot according to ratio of Lots by the Owner



to the Total number of Lots subject to Assessment. Regular Assessments shall be due and payable in monthly installments on the first day of each month during the term of this Declaration. Regular Assessments for all Lots in any Phase shall commence on the first day of the month following the conveyance to an Owner of the first Lot in that Phase. Each Phase shall be an implemented phase under the authority of a Public Report issues by the State of California Bureau of Real Estate.

B. *Required Annual Notice.* The Association shall distribute a written notice in at least 12-point type to each Member during the sixty (60) day period immediately preceding the beginning of the association's fiscal year reading as follows:

NOTICE ASSESSMENTS AND FORECLOSURE

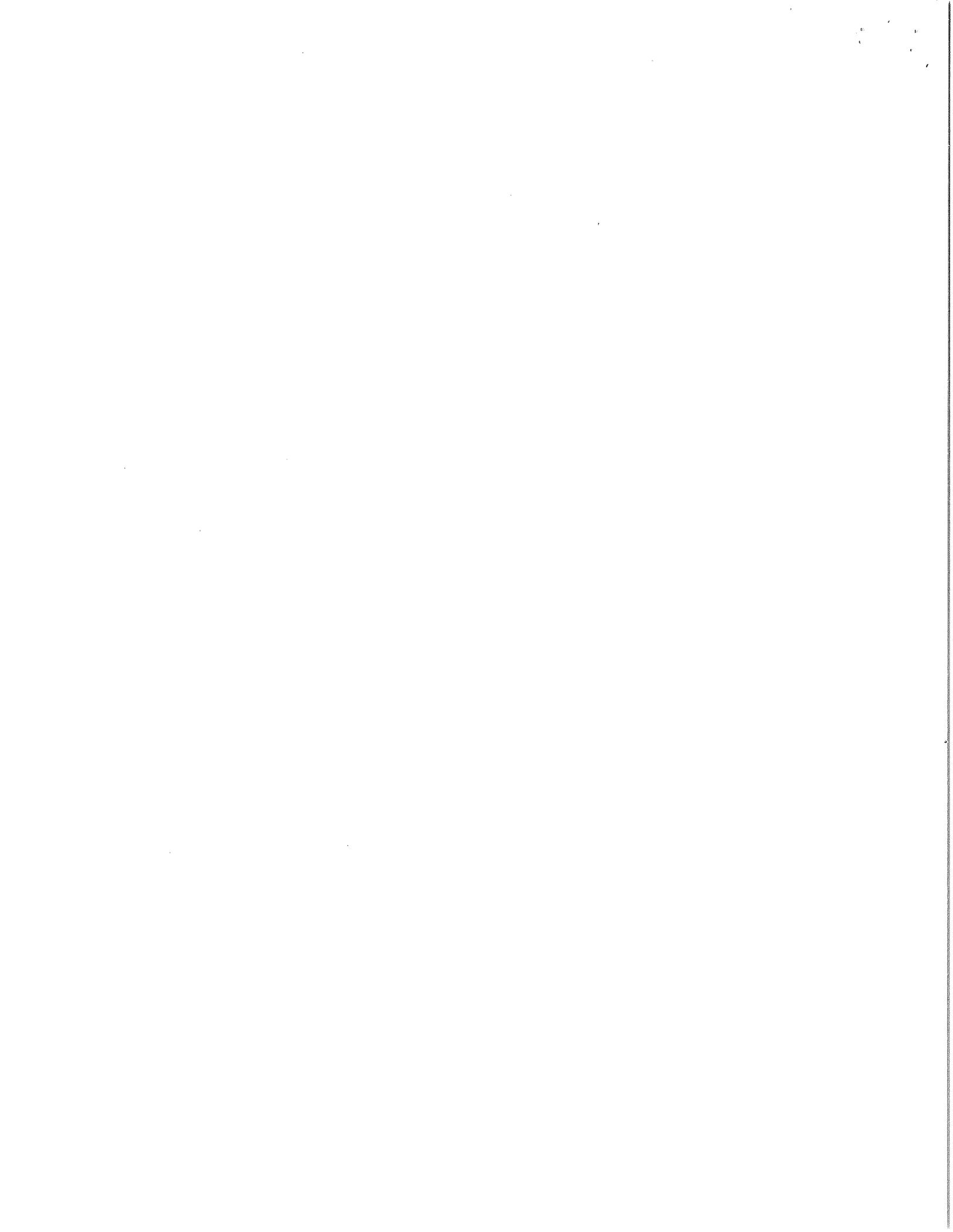
This notice outlines some of the rights and responsibilities of owners of property in common interest developments and the associations that manage them. Please refer to the sections of the Civil Code indicated for further information. You may wish to consult a lawyer if you dispute an assessment.

C. *Special Assessments.* Except as provided in California Civil Code section 5605 the Board of Directors may at any time levy a special Assessment in order to raise funds for unexpected operating or other costs, insufficient operating funds, or other purposes as the Board of Directors in its discretion considers appropriate in accordance with California Civil Code section 5600. Special Assessments shall be allocated among the Lots in the same manner as Annual Assessments, provided that the Board of Directors may levy a Special Assessment against a Member to reimburse the Association for costs incurred in bringing the Member and his/her Lot into compliance with the provisions of this Declaration. A Special Assessment may not be levied without complying with the provisions of California Civil Code section 5615.

5.4. *Restrictions on Increases in Annual or Special Assessments.* The Board of Directors may not impose on any Lot an Annual Assessment that is more than twenty percent (20%) greater than the Annual Assessment for the immediately preceding fiscal year or levy a special Assessment to defray the cost of any action or undertaking on behalf of the Association that in the aggregate exceeds five percent (5%) of the previous year's annual operating budget of the Association for that fiscal year without the votes at the meeting of the Association at which a quorum is present in accordance with California Civil Code section 5605(b). For purposes of this paragraph, a "quorum" means Members constituting more than fifty percent (50%) of the voting power of the Association. The Board of Directors must comply with the provisions of California Civil Code section 5610 prior to any increase in assessments.

A. Any meeting of the Association for purposes of complying with this paragraph shall be conducted in accordance with California Corporations Code section 7510 *et seq.* and California Corporations Code section 7613.

B. Notwithstanding the foregoing, the Board of Directors, without membership approval, may increase Annual Assessments or levy Special Assessments necessary for an



emergency situation pursuant to California Civil Code section 5610. For purposes of this paragraph, an emergency situation is one of the following:

An extraordinary expense required by an order of a court;

(2) An extraordinary expense necessary to repair or maintain the Property or any part of it for which the Association is responsible when a threat to personal safety on the Property is discovered; or

(3) An extraordinary expense necessary to repair or maintain the Property or any part of it for which the Association is responsible that could not have been reasonably foreseen by the Board of Directors in preparing and distributing the pro forma operating budget; provided, however, that prior to the imposition or collection of the Assessment, the Board of Directors shall pass a resolution containing written findings as to the necessity of the extraordinary expense involved and why the expense was not or could not have been reasonably foreseen in the budgeting process, and the resolution shall be distributed to the Members with the notice of Assessment.

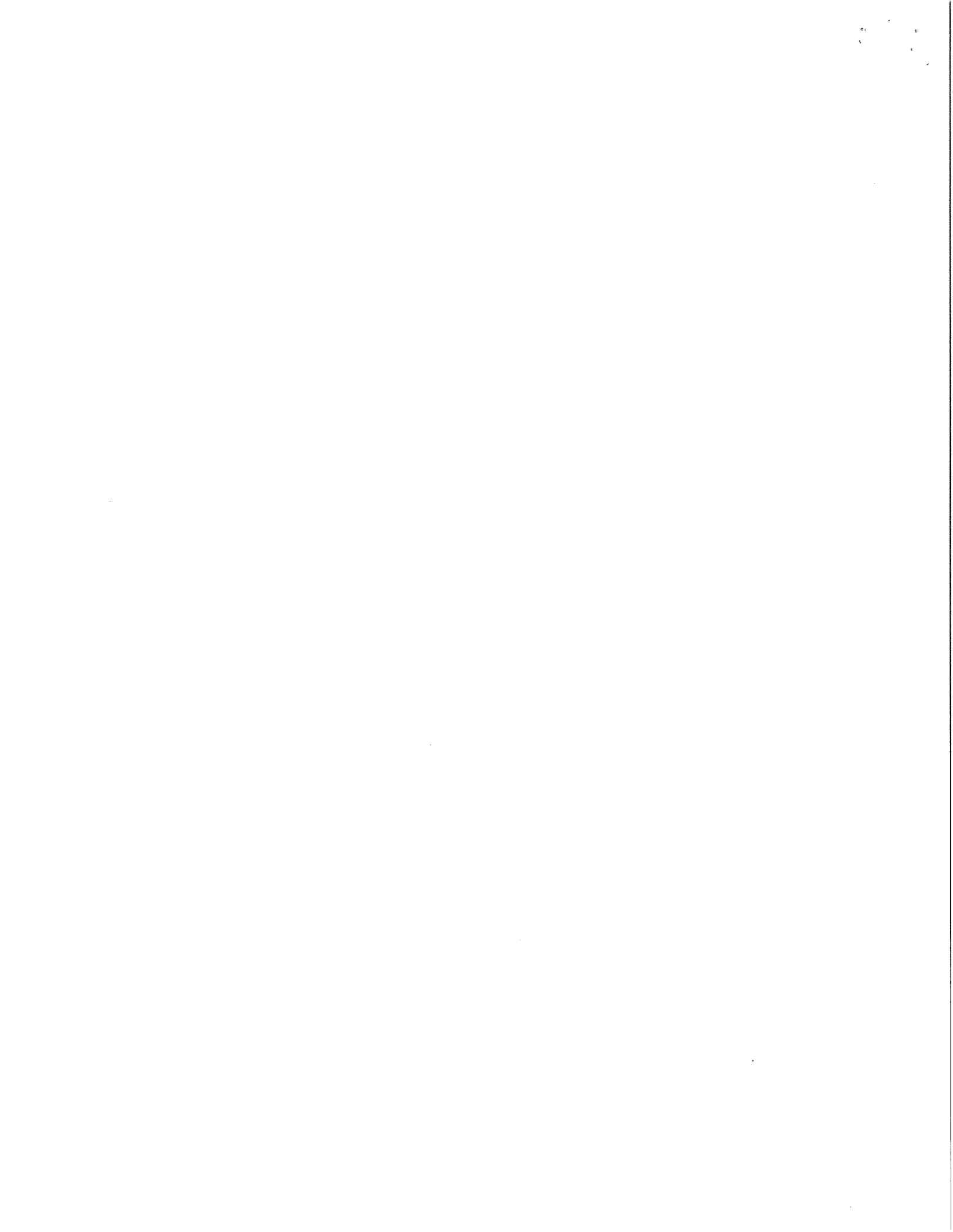
C. The Association shall provide to Owners by first-class mail notice of any increase in the regular or special Assessment of the Association not less than thirty (30) nor more than sixty (60) days prior to the increased Assessment becoming due.

5.5. *Notice.* Any action authorized under the provisions of this article that requires a vote of the membership shall be taken at a meeting called for that purpose, written notice of which shall be sent via first-class mail to all Members not less than ten (10) nor more than ninety (90) days in advance of the meeting and shall include an agenda of the meeting specifying the place, day, and hour of the meeting, and, in the case of a special meeting, the nature of the business to be undertaken.

5.6. *Meetings.* Any meeting or election of the Association called for purposes of complying with the provisions of this Declaration shall be conducted in accordance with California Corporations Code Chapter 5 (commencing with section 7510) of Part 3, Division 2 of Title 1 and California Corporations Code section 7613. For purposes of this Title, a quorum means more than fifty percent (50%) of the membership.

5.7. *Division of Assessments.* Annual Assessments shall be collected on a monthly basis unless the Board of Directors directs otherwise. Special Assessments may be collected in one (1) payment or periodically as the Board of Directors shall direct. All Assessments, both annual and special, shall be levied and apportioned equally among the Lots.

5.8. *Effect of Nonpayment.* Any Assessment not paid within fifteen (15) days after the due date shall be delinquent, shall bear interest at the rate of ten percent (10%) per annum commencing thirty (30) days after the due date until paid, and shall incur a late payment penalty in an amount to be set by the Board of Directors from time to time, not to exceed the maximum permitted by applicable law.



5.9. *Transfer of Lot by Sale or Foreclosure.* Transfer of Lot by Sale or Foreclosure shall have the following effect on assessment liens:

A. Sale or transfer of any Lot shall not affect the assessment lien. However, the sale of any Lot pursuant to Foreclosure shall extinguish the lien of any Assessments on that Lot (including attorneys fees, late charges, or interest) as to payments that became due prior to that sale or transfer (except for assessment liens as to which a notice of delinquent Assessments has been recorded prior to the mortgage). No amendment of the preceding sentence may be made without the consent of Owners of Lots to which at least sixty-seven percent (67%) of the votes in the Association are allocated, and the consent of the Eligible Mortgage Holders holding First Mortgages on Lots comprising fifty-one percent (51%) of the Lots subject to First Mortgages.

B. No sale or transfer shall relieve a Lot from liability for an Assessments thereafter becoming due or from the lien of those Assessments. The unpaid share of those Assessments shall collectible from the acquirer and his/her successors or assigns.

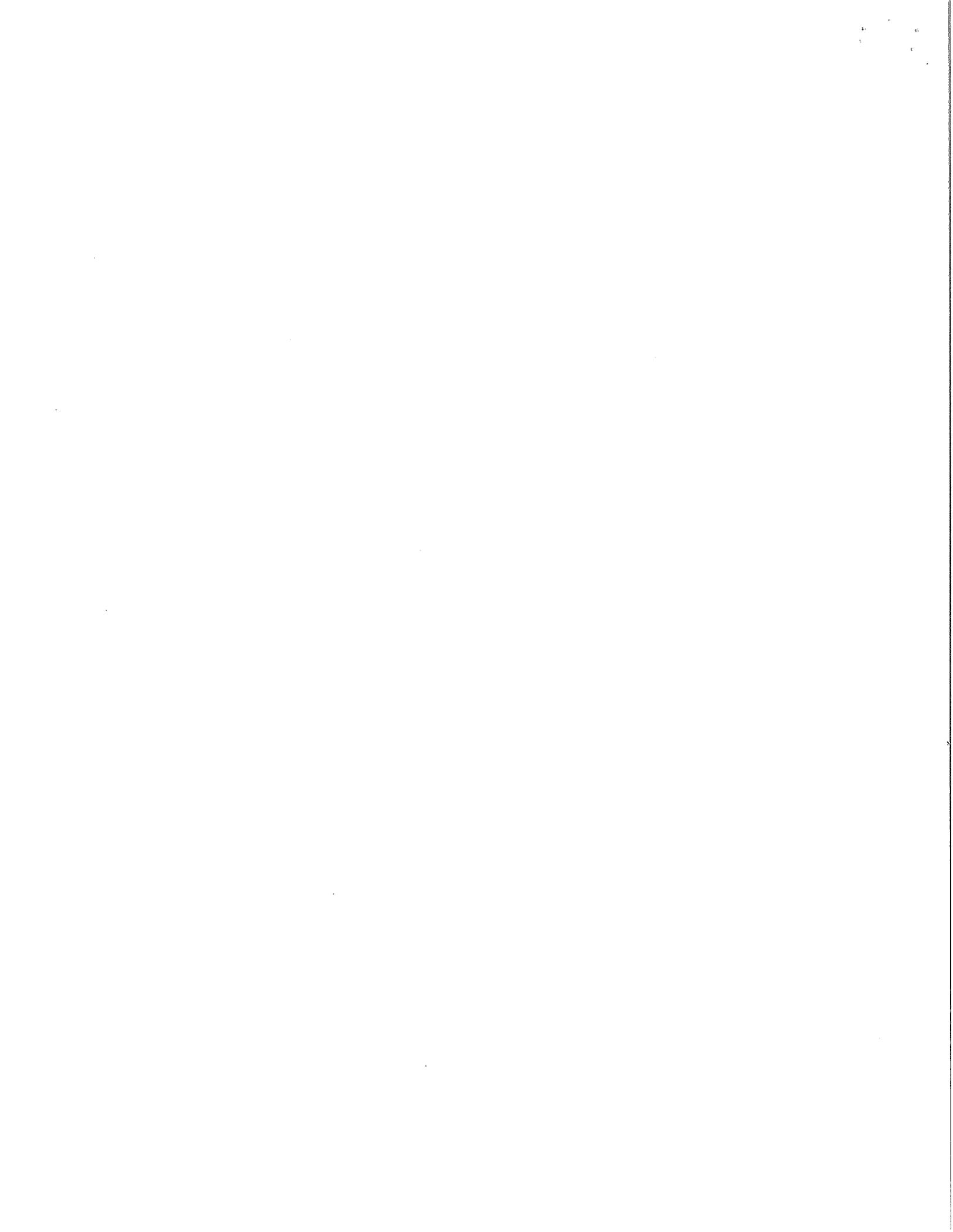
C. If a Lot is transferred, the grantor shall remain liable to the Association for all unpaid Assessments against the Lot through and including the date of the transfer. The grantee shall be entitled to a statement from the Association, dated as of the date of transfer, setting forth the amount of the unpaid Assessments against the Lot to be transferred, and the Lot shall not be subject to a lien for unpaid Assessments in excess of the amount set forth in the statement; provided, however, the grantee shall be liable for any Assessments that become due after the date of the transfer.

D. In the case of a subordination of a lien for Assessments to a first encumbrance, the transfer of a subdivision interest as the result of the exercise of a power of sale or a judicial foreclosure involving a default under the first encumbrance shall extinguish the lien of Assessments which were due and payable prior to the transfer of the subdivision interest.

5.10. *Remedies.* An Annual or Special Assessment and any late charges, reasonable fees and costs of collection, reasonable attorney's fees, if any, and interest, if any, as determined in accordance with California Civil Code section 5650, shall be a debt of the Owner of the separate interest at the time the assessment or other sums are levied.

A. At least thirty (30) days prior to recording a lien upon the separate interest of the Owner of record to collect a debt that is past due under this subdivision, the Association shall notify the Owner of record in writing by certified mail of the following:

(1) A general description of the collection and lien enforcement procedures of the Association and the method of calculation of the amount, a statement that the Owner of the separate interest has the right to inspect the Association records, pursuant to Section 8333 of the Corporations Code, and the following statement in 14-point boldface type, if printed, or in capital letters, if typed: "IMPORTANT NOTICE: IF YOUR SEPARATE INTEREST IS



PLACED IN FORECLOSURE BECAUSE YOU ARE BEHIND IN YOUR ASSESSMENTS, IT MAY BE SOLD WITHOUT COURT ACTION.”

(2) An itemized statement of the charges owed by the Owner, including items on the statement which indicate the amount of any delinquent assessments, the fees and reasonable costs of collection, reasonable attorney’s fees, any late charges, and interest, if any.

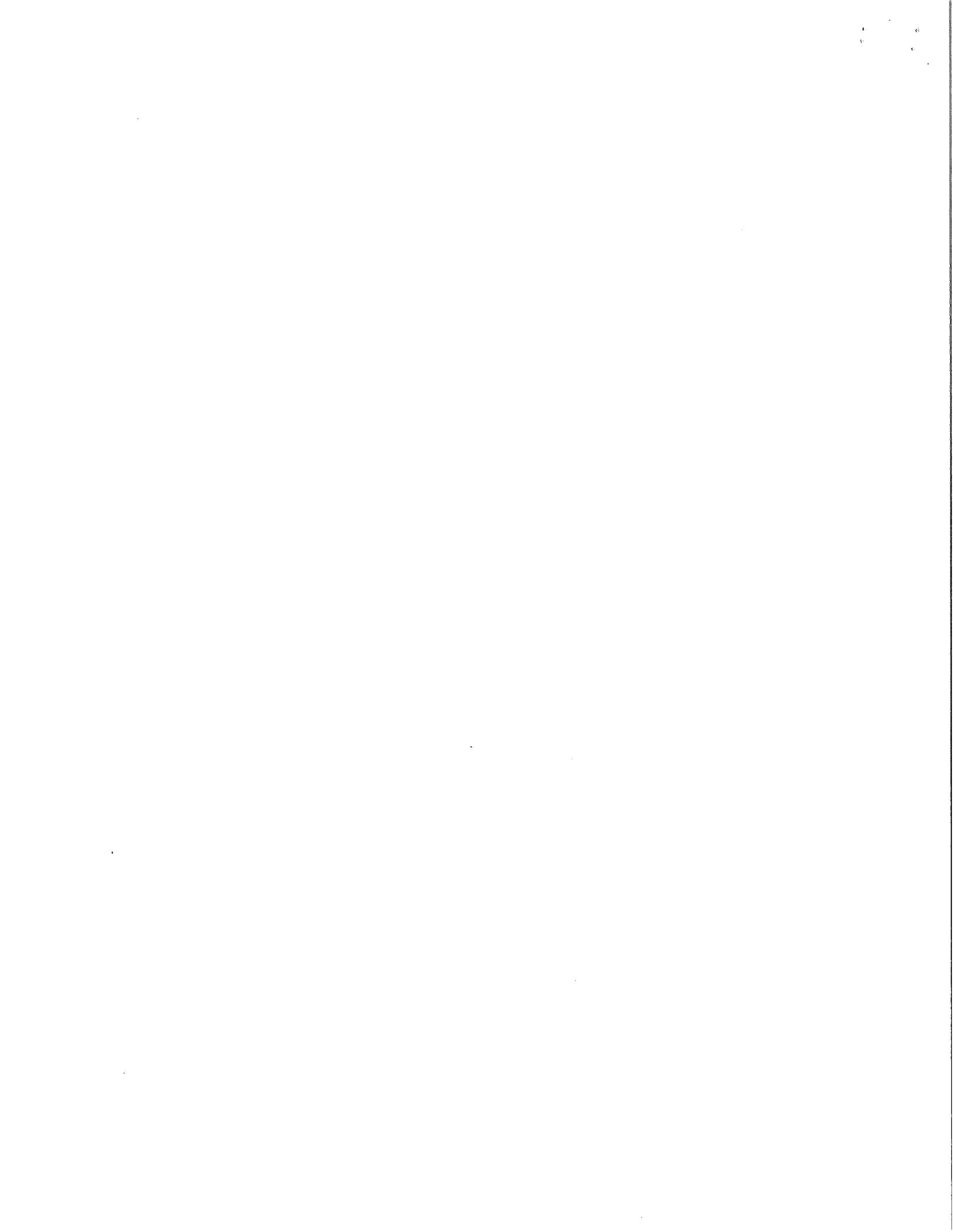
(3) A statement that the Owner shall not be liable to pay the charges, interest, and costs of collection, if it is determined the assessment was paid on time to the Association.

(4) The right to request a meeting with the board. The Board of Directors shall meet with the Owner in executive session within forty-five (45) days of the postmark of the request, if the request is mailed within fifteen (15) days of the date of the postmark of the notice, unless there is no regularly scheduled board meeting within that period, in which case the Board of Directors may designate a committee of one or more members to meet with the Owner.

(5) The right to dispute the Assessment debt by submitting a written request for dispute resolution to the Association.

(6) The right to request alternative dispute resolution with a neutral third party before the Association may initiate Foreclosure against the owner's separate interest, except that binding arbitration shall not be available if the Association intends to initiate a judicial Foreclosure.

B. The amount of the Assessment, plus any costs of collection, late charges, and interest assessed in accordance with California Civil Code section 5650, shall be a lien on the Owner’s interest from and after the time the Association causes to be recorded with the county recorder of the county in which the separate interest is located, a notice of delinquent assessment, which shall state the amount of the assessment and other sums imposed in accordance with California Civil Code section 5650, a legal description of the Owner’s interest against which the assessment and other sums are levied, the name of the record owner of the Owner’s interest against which the lien is imposed. In order for the lien to be enforced by non-judicial Foreclosure as provided below, the notice of delinquent assessment shall state the name and address of the trustee authorized by the Association to enforce the lien by sale. The notice of delinquent assessment shall be signed by the person designated in the declaration or by the Association for that purpose, or if no one is designated, by the president of the Association, and mailed in the manner set forth in California Civil Code section 2924b, to all record owners of the Owner’s interest in the common interest development no later than ten (10) calendar days after recordation. Within twenty-one (21) days of the payment of the sums specified in the notice of delinquent assessment, the Association shall record or cause to be recorded in the office of the county recorder in which the notice of delinquent assessment is recorded a lien release or notice of rescission and provide the Owner of the separate interest a copy of the lien release or notice that the delinquent assessment has been satisfied. A monetary charge imposed by the Association as a means of reimbursing the Association for costs incurred by the Association in the repair of damage to common areas and facilities for which the member or the member’s



guests or tenants were responsible may become a lien against the member's separate interest enforceable by the sale of the interest under California Civil Code sections 2924, 2924b, and 2924c.

C. The Association may not voluntarily assign or pledge the Association's right to collect payments or assessments, or to enforce or foreclose a lien to a third party, except when the assignment or pledge is made to a financial institution or lender chartered or licensed under federal or state law, when acting within the scope of that charter or license, as security for a loan obtained by the Association; however, the foregoing provision may not restrict the right or ability of the Association to assign any unpaid obligations of a former member to a third party for purposes of collection. Subject to these limitations, after the expiration of thirty (30) days following the recording of the lien, the lien may be enforced in any manner permitted by law, including sale by the court, sale by the trustee designated in the notice of delinquent assessment, or sale by a trustee substituted pursuant to California Civil Code section 2934a. Any sale by the trustee shall be conducted in accordance with California Civil Code sections 2924, 2924b, and 2924c applicable to the exercise of powers of sale in mortgages and deeds of trust. The fees of a trustee may not exceed the amounts prescribed in California Civil Code sections 2924c and 2924d.

D. The Association, acting on behalf of the Lot Owners, shall have the power to bid for the Lot at Foreclosure sale, and to acquire and hold, lease, mortgage, and convey the Lot. The purchase shall require the vote or written consent of a majority of the total voting power of the Association.

(1) During the period a Lot is owned by the Association, following Foreclosure, the following provisions shall be in effect:

(a) No right to vote shall be exercised on behalf of the Lot.

(b) No Assessment shall be levied on the Lot.

(c) Every other Lot shall be charged, in addition to its usual Assessment, its share of the Assessment that would have been charged to the Lot had it not been acquired by the Association as a result of Foreclosure.

(2) After acquiring title to the Lot at Foreclosure sale following notice and publication, the Association may execute, acknowledge, and record a deed conveying title to the Lot, which deed shall be binding upon the Owners, successors, and all other parties.

E. The Board of Directors may temporarily suspend the voting rights of a Member who is in default in payment of any Assessment, after notice and hearing, as provided in the Bylaws.

F. In conformity to California Civil Code section 5725 fines and penalties imposed by the Association for violation of this Declaration as a disciplinary measure for failure of an



Owner to comply with this Declaration or the Rules, except for late payments, are not "Assessments", and are not enforceable by assessment lien, but are enforceable by court proceedings; provided, however, pursuant to California Civil Code section 5725 monetary penalties imposed by the Association to reimburse the Association for costs incurred for repair of damage to Common Area or facilities for which the Owner, or tenants of an Owner, were responsible may become the subject of a lien.

G. Notwithstanding the above, the Association may not collect delinquent regular or special assessments of an amount less than one thousand eight hundred dollars (\$1,800.00), not including any accelerated assessments, late charges, fees and costs of collection, attorney's fees, or interest, through judicial or non-judicial Foreclosure, but may attempt to collect or secure that debt in any of the following ways:

(1) By a civil action in small claims court.

(2) By recording a lien on the owner's separate interest upon which the association may not foreclose until the amount of the delinquent assessments secured by the lien, exclusive of any accelerated assessments, late charges, fees and costs of collection, attorney's fees, or interest, equals or exceeds one thousand eight hundred dollars (\$1,800.00) or the assessments secured by the lien are more than twelve (12) months delinquent.

(3) Any other manner provided by law, except for judicial or non-judicial Foreclosure.

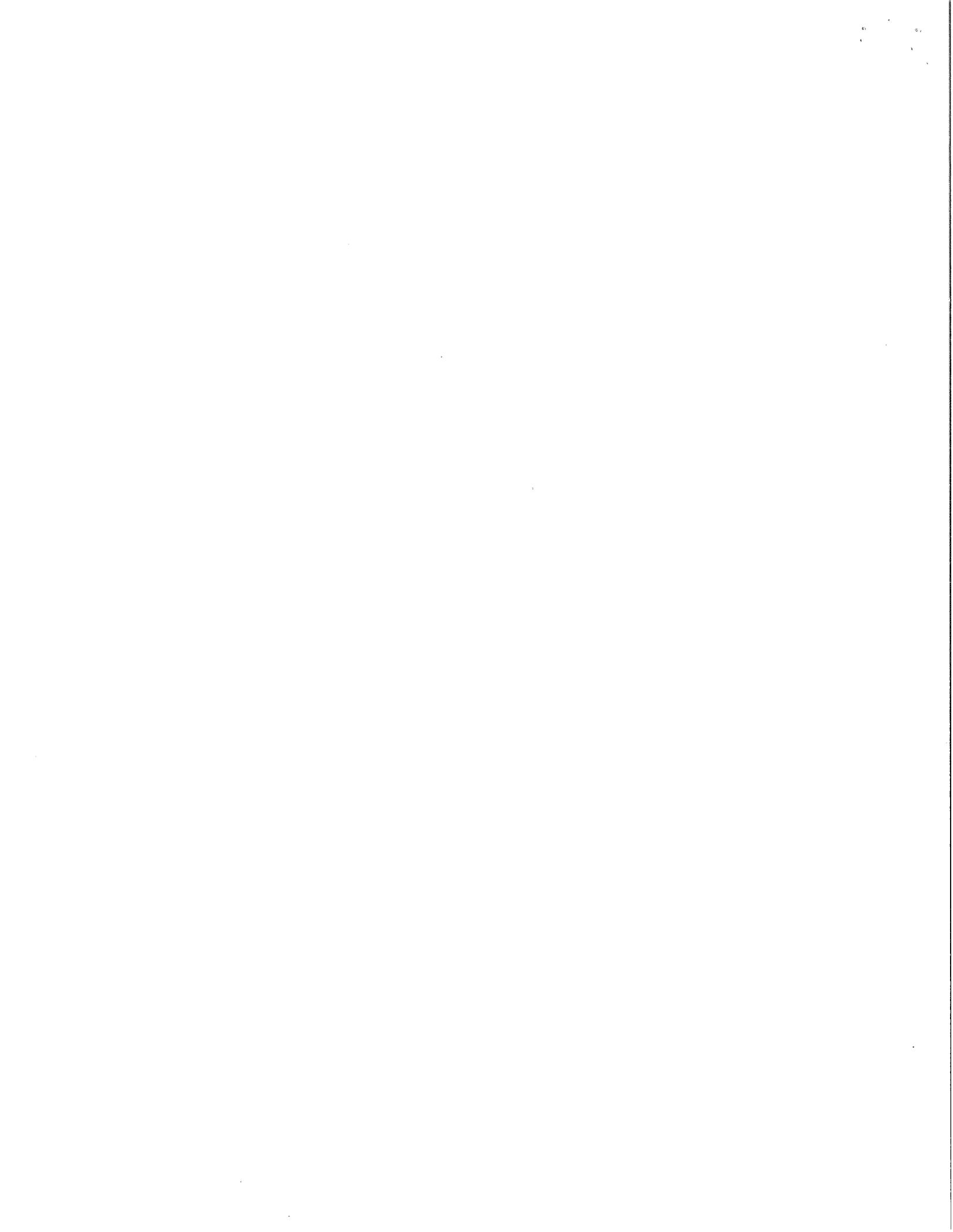
5.11. *Unallocated Taxes.* In the event that any taxes are assessed against the Common Area or the personal property of the Association, rather than against the Lots, those taxes shall be included in the Assessments made under the provisions of this Declaration and, if necessary, a special Assessment may be levied against the Lots in an amount equal to those taxes, to be paid in two installments, thirty (30) days prior to the due date of each tax installment.

ARTICLE VI

DUTIES AND POWERS OF THE ASSOCIATION

6.1. *Duties.* In addition to the duties enumerated in the Bylaws, or elsewhere provided in this Declaration, and without limiting the generality of those duties, the Association shall have the following duties:

A. *Management and Maintenance.* The Association shall manage and maintain in good condition the Common Area including the Common Facilities, improvements, landscaping, and other personal or real property acquired by or subject to the control of the Association. The Association shall acquire, provide, and pay for all necessary utility services for the Common Area. All Owners shall share equally in the assessments for maintenance of the Common Area. These management and maintenance responsibilities shall include, but not be limited to, the following:



(1) *Fire Protection.* The Association shall be obligated to maintain the Common Area and Common Area Facilities in a fire safe condition;

(2) *Wild Land Fuel Reduction Zone.* The Association shall annually maintain a 30 foot wide wild land fuel reduction zone along all open space lots and Lot 172 abutting the Project;

(3) *Drainage Facilities Maintenance.* The Association shall maintain the drainage swales and storm drainage improvements in a viable condition the manner as originally designed or improved upon as installed by the Declarant on an ongoing basis in perpetuity. Said drainage swales and improvements to be maintained by the Association include drainage swales and infrastructure within the Common Area, drainage infrastructure within the Private Drainage Easement on Lot 172, and the drainage infrastructure from the Lot 172 swales to the public storm drain system in Arrezo Drive. Drainage swales along the west and south tract boundaries shall be maintained, repaired and/or replaced by individual Owners in such a way as to allow clear and unobstructed storm water flows. No storage, alterations, construction and/ or landscaping may be permitted in or around these swales in a manner that interferes with accessibility to, the design of, and function of the overall tract storm drainage system. In the event individual Owners do not properly maintain, repair and/or replace the drainage improvements, the Association shall have the right to enter said Owner's property, effect such maintenance, repair and/or replacement, and bill said Owner for costs related thereto;

(4) *Off-Site Storm Water Detention Basin.* The Association shall reimburse The Serra Meadows Residential Homeowner's Association (or other responsible entity) of Tract 2342 for The Association's share of the continued maintenance and improvement costs of the Regional Storm Water Detention Basins as set forth in the "Agreement for Drainage Easement and Maintenance of Storm Water Detention Basins" recorded on the 3rd day of April, 2014 as Instrument No. 2014013875 in the office of the County Recorder of the County of San Luis Obispo, State of California;

(5) *Landscaping.* Landscaping and irrigation systems lying in the Common Area and pathways shall be maintained by the Association as installed by the Declarant and as approved by the City of San Luis Obispo in the Conditions of Approval for Tract 2428;

(6) *Streets.* The easements for private streets known as Tresana Lane (Pvt.) and Calle Malva (Pvt.) and private access and parking over Lots 86 through 89, Lots 90, 91, 95, and 96, all as delineated on Tract Map 2428-1 and any other easements for private streets and private access and parking shall be maintained in the manner as originally installed by the Declarant;

(7) *Sewers.* The Association shall maintain the sewer lines located within the private streets in a manner as originally installed by the Declarant;



(8) *Water.* The Association shall maintain the private water services located within the easements for private streets in a manner as originally installed by the Declarant;

(9) *Street Lights, Signage and Facilities.* The Association shall maintain and operate all street lights, signage and facilities controlled by the Association along interior roadways including “no parking” signs and red curbing required by the City Fire Department;

(10) *Walls, Fences and Slopes.* The Association shall maintain all retaining walls taller than three (3) feet and an area at the top of the walls equal to the height of the wall plus one (1) foot. This area includes but is not limited to all fencing, drainage swales, and geogrid in a manner as originally installed by the Declarant; and

(11) *Pedestrian and Bike Paths.* The Association shall maintain and operate all pedestrian and bike paths and lighting in a manner as originally installed by the Declarant.

However, the responsibility of the Association for maintenance and repair shall not extend to repairs or replacements arising out of or caused by the willful or negligent act or omission of an Owner, or his/her tenant; except if the repair is covered by the insurance carried by the Association, the Association shall be responsible for making the repairs, and the responsible Owner shall pay any deductible pursuant to the insurance policy. If the Owner fails to make the payment, then the Association may make the payment and shall charge the responsible Owner, which charge shall bear interest at the rate of twelve percent (12%) per annum (or more if allowed by law) until paid in full. Any repairs arising out of or caused by the willful or negligent act of an Owner, or his/her tenant, the cost of which is not covered by insurance carried by the Association, shall be made by the responsible Owner, provided the Board of Directors approves the person actually making the repairs and the method of repair. If the responsible Owner fails to take the necessary steps to make the repairs within a reasonable time under the circumstances, the Association shall make the repairs and charge the cost to the responsible Owner, which cost shall bear interest at the rate of twelve percent (12%) per annum (or more if but no greater than the maximum rate authorized by law) until paid in full. If an Owner disputes his or her responsibility for the repairs, the Owner shall be entitled to notice and a hearing as provided in the Bylaws before any charge may be imposed.

B. The City’s Right to Maintain.

(1) The owners of all Lots subject to these covenants, conditions and restrictions recognize that proper maintenance of the Common Area is for the benefit of all citizens of the City, and that the City is an intended third party beneficiary of these covenants, conditions and restrictions and may upon notice and hearing set forth below, exercise the same powers of enforcement as the Association.

(2) In the event the City determines that the Association has not adequately maintained the Common Area, then the City may give written notice to the Association, which notice shall contain the date of hearing on the matter, which hearing shall be held no sooner than fifteen (15) days after the mailing of such notice, and in the event after such hearing the City



determines to so act, then the City may undertake the maintenance of such common area. Any area shall be a lien against the maintenance fund and the property subject to assessment, and shall be the personal obligation of the members of the Association.

(3) The City shall have the right to inspect the site at mutually agreed-upon times to assure that the conditions of the covenants, conditions and restrictions and the final map are being met.

C. *Insurance.* The Association shall maintain the policy or policies of insurance required by the provisions of this Declaration and the Bylaws.

D. *Discharge of Liens.* The Association shall discharge by payment, if necessary, any lien against the Common Area, and charge the cost to the Member or Members responsible for the existence of the lien (after notice and hearing, as provided in the Bylaws).

E. *Assessments.* The Association shall fix, levy, collect, and enforce Assessments as set forth in the provisions of this Declaration and the Bylaws.

F. *Payment of Expenses and Taxes.* The Association shall pay all expenses and obligations incurred by the Association in the conduct of its business, including, without limitation, all licenses, taxes, or governmental charges levied or imposed against the property of the Association.

G. *Bank Accounts.* The Association shall keep its operational funds in a separate bank account from any capital reserve accounts it may hold. These bank accounts shall employ the Association's federal tax identification number. Should any Association funds be placed in a bank account employing a Member's federal tax identification number, the Association shall impose a constructive trust over the funds and take appropriate and immediate legal action to seek the return of those funds.

H. *Income Tax Returns.* The Association shall file income tax returns and pay income taxes owed, if any, and if no income tax is owed, file informational tax returns in order to commence the running of the statute of limitations. Income tax returns shall be filed with the Internal Revenue Service and the California Franchise Tax Board, and with any local taxing agencies should an income tax requirement be imposed in the future. Returns shall be prepared by an independent licensee of the California State Board of Accountancy and filed no later than March 15th or as otherwise required, for the preceding calendar year. The Secretary of the Association shall provide a copy of the income tax returns, along with a copy of the engagement letter between the Association and the certified public accountant, to each Owner each year.

I. *Other Taxation Filings.* The Association shall be in compliance of all federal and state income tax filing requirements, including, but not limited to the issuance of 1099's to all unincorporated vendors no later than January 31st, or as otherwise required, for the preceding calendar year. These 1099's shall reflect the federal tax identification number of the Association. In no event shall 1099's reflect a Member's federal tax identification number unless that Member



actually paid an unincorporated vendor who performed services for the Association and the Member was not reimbursed by the Association.

J. *Secretary of State Filings.* The Association shall file every two (2) years, or as otherwise required by statute, with the California Secretary of State a Statement by Common Interest Development pursuant to California Civil Code section 5405. This statement is not to be confused with the registration which is required by mutual benefit nonprofit corporation.

K. *Enforcement.* The Association shall be responsible for the enforcement of this Declaration. The Association shall maintain and operate the Common Area of the Property in accordance with all applicable municipal, state and federal laws, statutes, and ordinances, as the case may be. The Association shall also, as a separate and distinct responsibility, ensure that third parties (including Owners and their tenants) utilize the Common Area in accordance with the aforementioned regulations. The Association shall, when it becomes aware of any violation of the aforementioned regulation, expeditiously correct the violations.

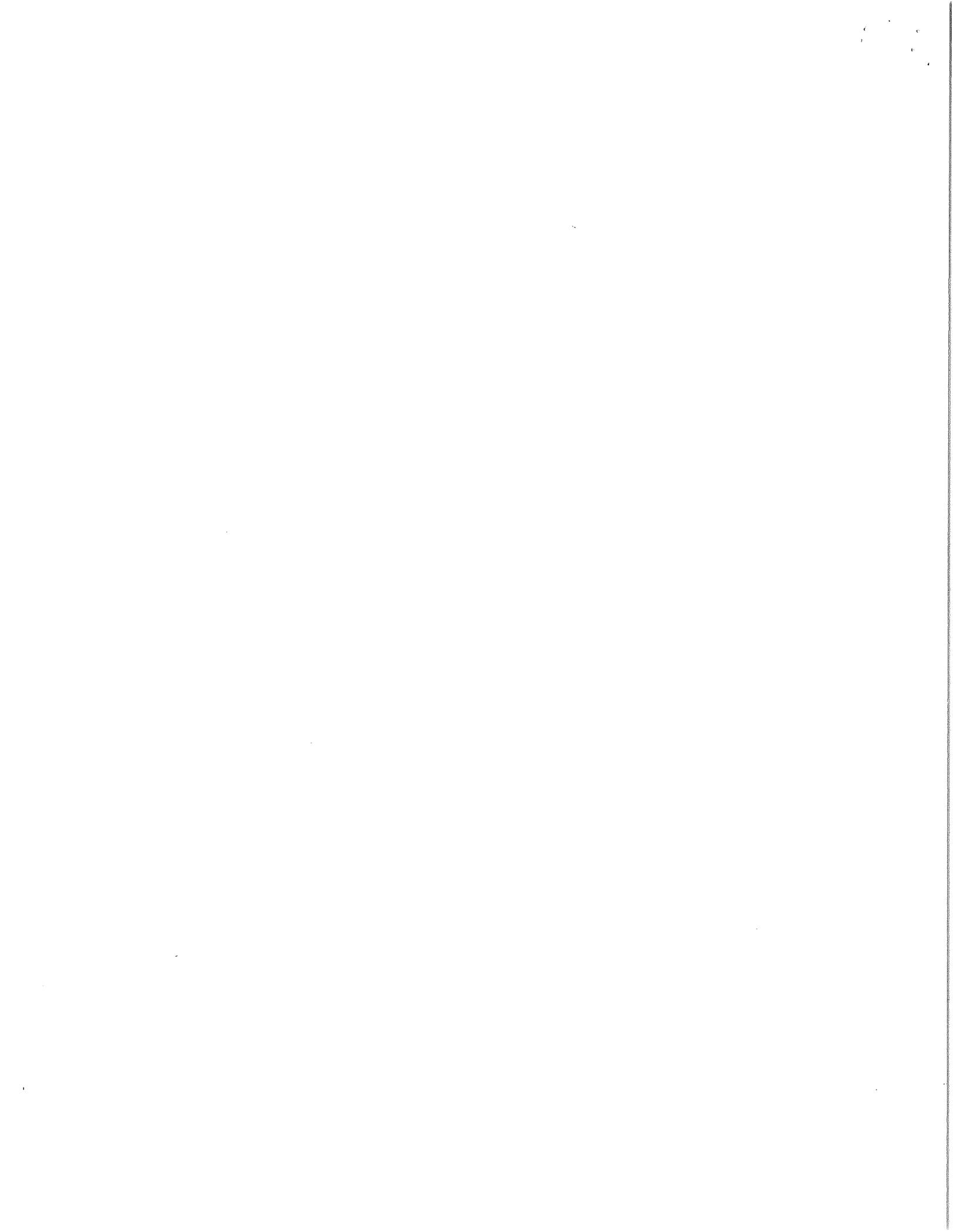
L. *Inspection and Maintenance Guidelines.* The Board of Directors shall adopt inspection and maintenance guidelines for the periodic inspection and maintenance of the Common Area improvements and landscaping, including, but not limited to private streets, light fixtures, storm drainage facilities, landscape planting, and the irrigation system. The Board of Directors periodically, and at least once every three (3) years, shall review and update inspection and maintenance guidelines. The Board of Directors shall take all appropriate steps to implement and comply with the inspection and maintenance.

6.2. *Powers.* In addition to the powers enumerated in the Articles and Bylaws or elsewhere provided for in this Declaration, and without limiting their generality, the Association shall have the following powers:

A. *Easements.* The Association shall have the authority, by document signed by the President and the Secretary, to grant permits, licenses, and easements in addition to those shown on the Subdivision Map when necessary for roads, utilities, and sewer facilities over the Common Area to serve the Common Areas and the Lots, or when necessary to satisfy or achieve appropriate governmental purpose or request.

B. *Manager.* The Association may employ a manager or other persons and contract with independent contractors or managing agents to perform all or any part of the duties and responsibilities of the Association, except for the responsibility to levy fines, impose discipline, hold hearings, file suit, record or foreclose liens, or make capital expenditures, provided that any contract with a firm or person shall not exceed a one-year term and shall provide for the right of the Association to terminate the contract for cause on thirty (30) days' written notice, or terminate without cause or payment of a termination fee on ninety (90) days' written notice.

C. *Adoption of Rules.* The Board of Directors, or Members of the Association by majority vote, may adopt reasonable rules that are not inconsistent with this Declaration relating to the use of the Common Area and all its facilities and the conduct of Owners and their tenants



with respect to the Property and other Owners. Written copies of the Rules and any schedule of fines and penalties adopted by the Board of Directors shall be furnished to Owners.

D. *Access.* For the purpose of performing construction, maintenance, or emergency repair for the benefit of the Common Area, the Association's agents or employees shall have the right, after reasonable notice (in no case less than seventy-two (72) hours except in emergencies) to the Owner of the Lot, to enter that Lot at reasonable hours. Entry shall be made with as little inconvenience to the Owner as practicable, and any damage caused by that entry shall be repaired by the Board of Directors at the expense of the Association.

E. *Assessments, Liens, Penalties and Fines.* The Board of Directors shall have the power to levy and collect Assessments in accordance with the provisions of this Declaration.

F. *Enforcement.* The Board of Directors shall have the authority to enforce the provisions of this Declaration.

G. *Loans.* The Board of Directors shall have the power to borrow money and, only with the assent (by vote or written consent) of seventy-five percent (75%) of the total voting power of the Association, to pledge personal property (as in a Special Assessment) as security for money borrowed or debts incurred.

H. *Service and Goods Contracts.* The Board of Directors shall have the power to contract for goods and services for the Common Areas or for the Association, subject to limitations set forth in the Bylaws or elsewhere in this Declaration.

I. *Construction Contracts.* The Board of Directors shall have the power to contract for construction contracts for the repair, maintenance and improvements to the Common Area subject to limitations set forth in the Bylaws or elsewhere in this Declaration. However, the Board of Directors shall not enter into any construction contracts in which the aggregate contract price for labor, materials and other items exceed five hundred dollars (\$500), or such other dollar amount set by California Business and Professions Code section 7048, unless construction performance is by a California licensed contractor in the specific trade hired. No construction contracts shall be paid by the Association or its managing agent, if any, without signed labor and material releases relating to the job performed. All construction contracts shall remain in the Association's office and shall be made available for inspection by any Owner during regular business hours.

J. *Delegation.* The Association and the Board of Directors shall have the power to delegate their authority and powers to committees, officers, or employees of the Association, or to a manager employed by the Association, provided that the Board of Directors shall not delegate its responsibility:

(1) To make expenditures for capital additions or improvements chargeable against reserve funds;

(2) To conduct hearings concerning compliance by an Owner or his or her tenant, with this Declaration, Bylaws, or Rules promulgated by the Board of Directors;

(3) To make a decision to levy monetary fines, impose Special Assessments against individual Lots, temporarily suspend an Owner's rights as a Member of the Association, or otherwise impose discipline;

(4) To make a decision to levy Annual or Special Assessments; or

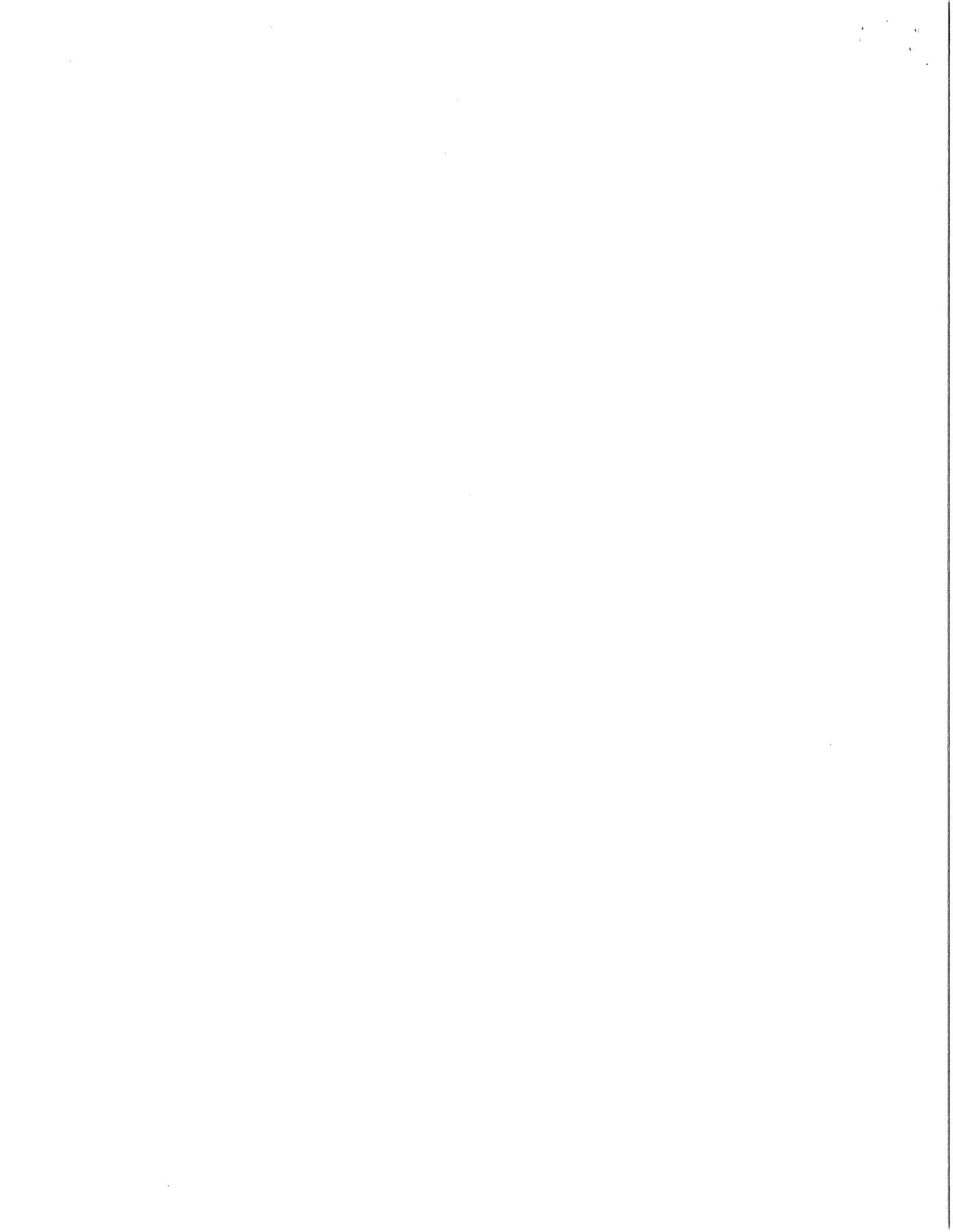
(5) To make a decision to bring suit, record a claim of lien, or institute Foreclosure proceedings for default in payment of Assessments.

K. *Mailings.* The Board of Directors shall not suspend the voting rights of any Member who is not a member of the Board of Directors, until a hearing and an appropriate fine is imposed according to the Bylaws, upon the mailing, or personal delivery, of any correspondence with the return address of the Association without first receiving prior approval of the entire Board of Directors.

(1) In the event that a Member mails, or personally delivers, correspondence with the return address of the Association without prior approval of the entire Board of Directors, the Board of Directors shall immediately send, or personally deliver, correspondence to every known recipient of the unauthorized correspondence informing him or her that the correspondence was not authorized by the Association.

(2) Any Member (or Members) who is not a member of the Board of Directors who mails, or hand delivers, any correspondence with the return address of the Association, or participates in such conduct, and without the prior approval of the entire Board of Directors, shall indemnify and defend the Association, the Board of Directors, and the nonparticipating Members in any litigation which may ensue by an aggrieved Member or third party as a result of the mailing or hand delivery of the unauthorized correspondence.

L. *Litigation.* The Association, subject to the provisions of this Declaration, shall have the power to institute, defend, settle, or intervene in litigation, arbitration, mediation, or administrative proceedings on behalf of the Association pursuant to California Code of Civil Procedure sections 5980 and 5985. The Board of Directors has authority to enter into a contingent fee contract with an attorney in a matter involving alleged design or construction defects in the Property only as to the facilities or improvements the Association is responsible for maintaining as provided in this Declaration, and then only after obtaining the vote at a duly noticed and properly held membership meeting of a majority of a quorum of the Members. The Board of Directors shall, not later than thirty (30) days prior to filing any civil action by the Association for alleged design or construction defects in the areas of the Property that it is obligated to maintain, notify the Members in the manner required by California Civil Code section 6000. In the event the Board of Directors files an action in advance of a meeting of the Members, in order to avoid the running of a statute of limitations, the Board of Directors shall



call a special meeting of the Members within thirty (30) days after filing the action, for the purpose of discussing the action taken by the Board of Directors.

M. *Common Area Completion Bonded Obligations.* If Common Area improvements included in the subdivision offering have not been completed prior to the issuance of the public report and the Association is an obligee under a bond or other arrangement to secure performance of the obligations of the Subdivider to complete the improvements, then the following provisions shall apply to the initiation of any action to enforce those obligations:

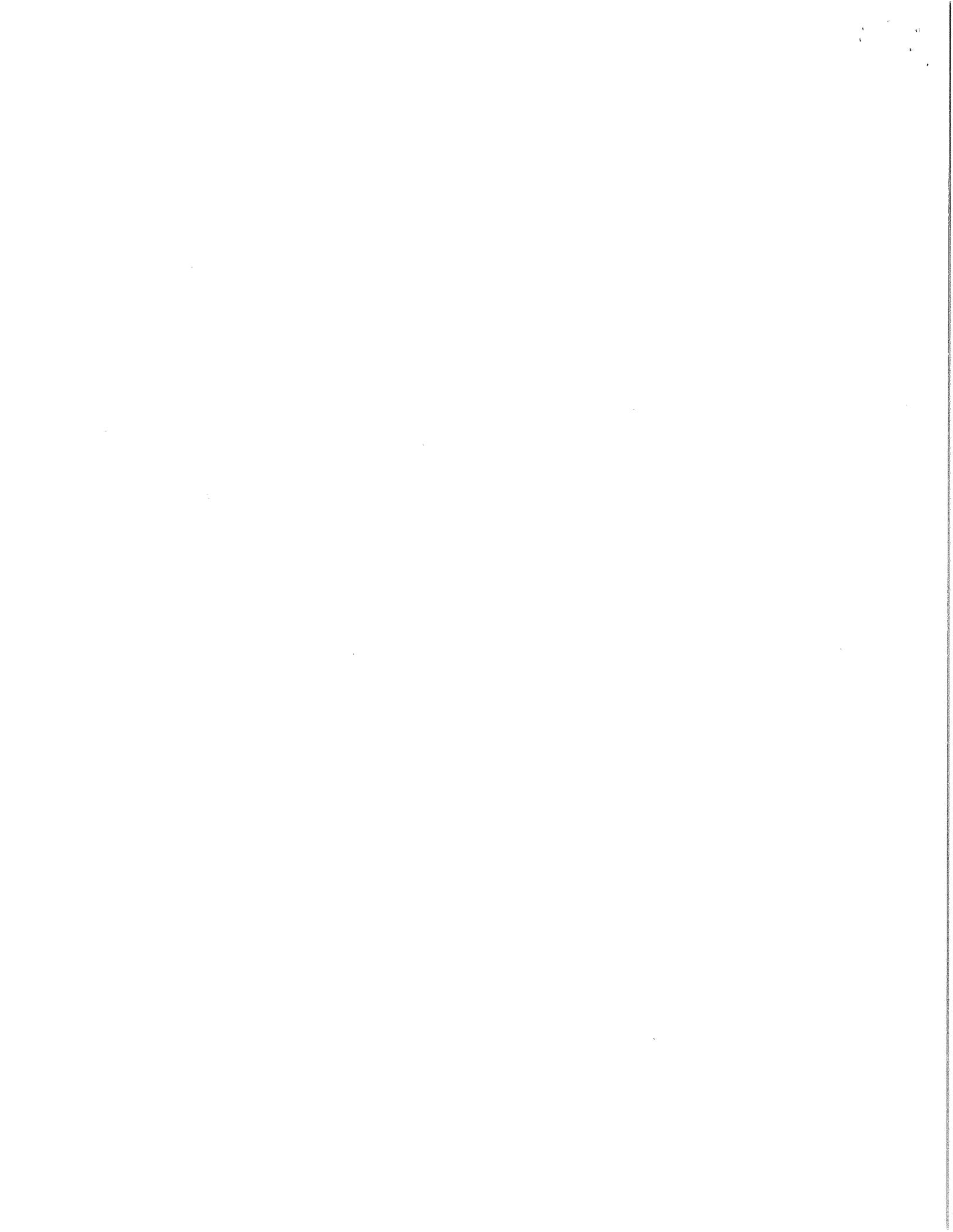
(1) The Board of Directors shall be directed to consider and vote on the question of action by the Association to enforce those obligations with respect to any improvement for which a Notice of Completion has not been filed within sixty (60) days after the completion date specified for that improvement in the Planned Construction Statement appended to the bond. If the Association has given an extension in writing for the completion of any Common Area improvement, the Board of Directors shall be directed to consider and vote on the this matter if a Notice of Completion has not been filed within thirty (30) days after the expiration of the extension.

(2) A special meeting of members for the purpose of voting to override a decision by the Board of Directors not to initiate action to enforce the obligations under the bond or on the failure of the Board of Directors to consider and vote on the question. The meeting shall be required to be held not less than thirty-five (35) days nor more than 45 days after receipt by the governing body of a petition for such a meeting signed by members representing five percent (5%) or more of the total voting power of the Association.

(3) A vote by members of the Association other than the Subdivider at the special meeting called for the purpose set forth above.

(4) A vote of a majority of the voting power of the Association residing in members other than the Subdivider to take action to enforce the obligations under the Bond shall be deemed to be the decision of the Association and the governing body shall thereafter implement this decision by initiating and pursuing appropriate action in the name of the Association.

N. *Common Area Improvements.* The Association shall have the authority and power to demolish, remove, and reconstruct any and all improvements on or over or under the Common Area in a manner not inconsistent with this Declaration, and to construct, improve, and repair improvements that are appropriate for the use and benefit of the Members of the Association, and to charge for the use of those improvements, provided that the Association shall not include in any Assessment, annual or special, the cost of any new capital improvement that exceeds ten percent (10%) of the previous year's annual operating budget in cost to be expended in any one calendar year, unless fifty-one percent (51%) or more of the voting power of the Association previously shall have approved that expenditure.



ARTICLE VII

UTILITIES

7.1. *Easements for Utilities and Maintenance.* Easements over, under, and through the Project, if any, for the installation, repair, and maintenance of electric, gas, telephone, television, water, and sanitary sewer lines and facilities, drainage facilities, walkways and landscaping, as may be required or needed to serve the Project, are reserved by and for the benefit of the Association and its Members.

7.2. *Association's Duties.* The Association shall maintain all utility facilities located in the Common Area except those facilities maintained by utility companies, public, private, or municipal, and those maintained by the Owners. The Association shall pay all charges for utilities supplied to the Project except those metered or charged separately to the Lots.

ARTICLE VIII

INSURANCE; DAMAGE OR DESTRUCTION; CONDEMNATION

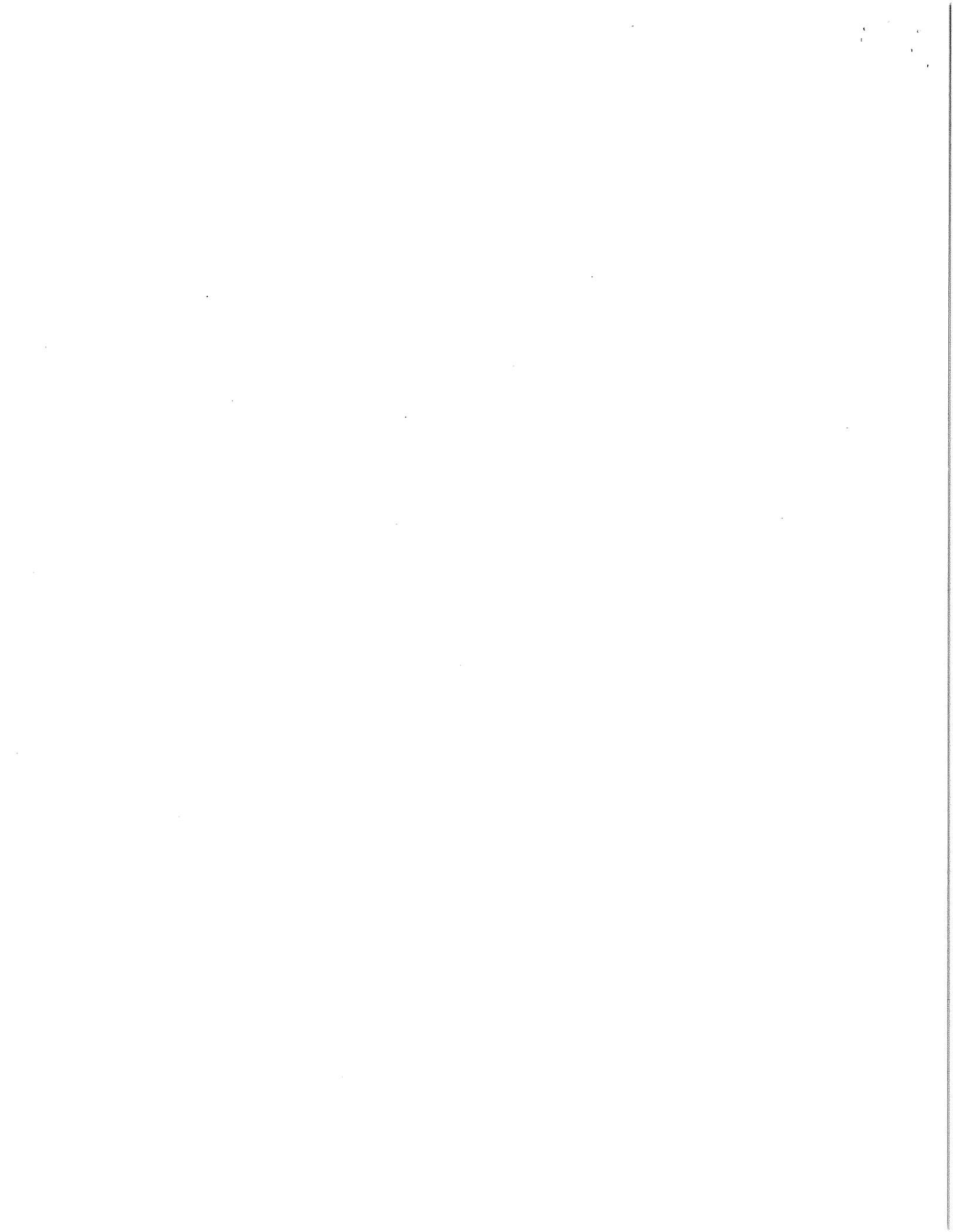
8.1. *Insurance.* The Association shall obtain and maintain as specified below:

A. *Liability Insurance.* Comprehensive general liability and property damage insurance shall be maintained and in force at all times, the premiums thereon to be paid out of the annual Assessment fund. The insurance shall be carried with reputable companies authorized to do business in the State of California and shall be in an amount which satisfies California Civil Code section 5805.

(1) Fifteen (15) days before the policy (or policies) is renewed, the Board of Directors shall authorize competent legal counsel, or such other competent person, to verify the threshold amount of insurance required in order to satisfy California Civil Code section 5805.

(2) The policy or policies shall name as insured the Association and the Owners, and shall be the type of policy sold for residential common interest developments. The policy or policies shall insure against loss arising from perils in the Common Area and shall include contractual exposure of the Association and the Board of Directors.

B. *Hazard Insurance on Common Area.* Fire, extended coverage, vandalism, malicious mischief and other hazard insurance shall be maintained and in force at all times, the premiums to be paid out of the annual Assessment fund. The policy shall provide for the issuance of certificates or such endorsements evidencing the insurance as may be required by the respective mortgagees. The policy or policies shall insure against loss from perils therein covered to all the improvements in the Common Area. The improvements to be insured under this clause shall contain an insured value, and the policies or policies shall contain a stipulated amount clause or determinable cash adjustments clause, or similar clause to permit a cash settlement covering specific value in the event of destruction and the inability to rebuild pursuant to the



provisions of this Declaration. The policy or policies shall name as insured the Association, the "Owners", and any mortgagees of record. The policy or policies shall also cover personal property owned in common and shall further contain a waiver of subrogation rights by the carrier as to negligent Owners.

(1) *Hazard Insurance on Structures.* Except as expressed and provided in this Article VIII, every Owner shall separately insure his/her structure or any part thereof against loss by fire or other casualty. The Association shall have no responsibility to secure any insurance thereof.

(2) *Copies of Policies.* The Association shall provide every Owner a complete copy of all insurance policies, and if the policy is renewed the following year(s) every Owner shall be provided a copy of the renewal and any changes in the policy.

C. *Endorsements.* The following endorsements should be included if applicable:

(1) Changes in building codes, and demolition coverage (sometimes referred to as "ordinance or law endorsement");

(2) Inflation guard coverage;

(3) "Agreed-amount" endorsement (to eliminate coinsurance problems);

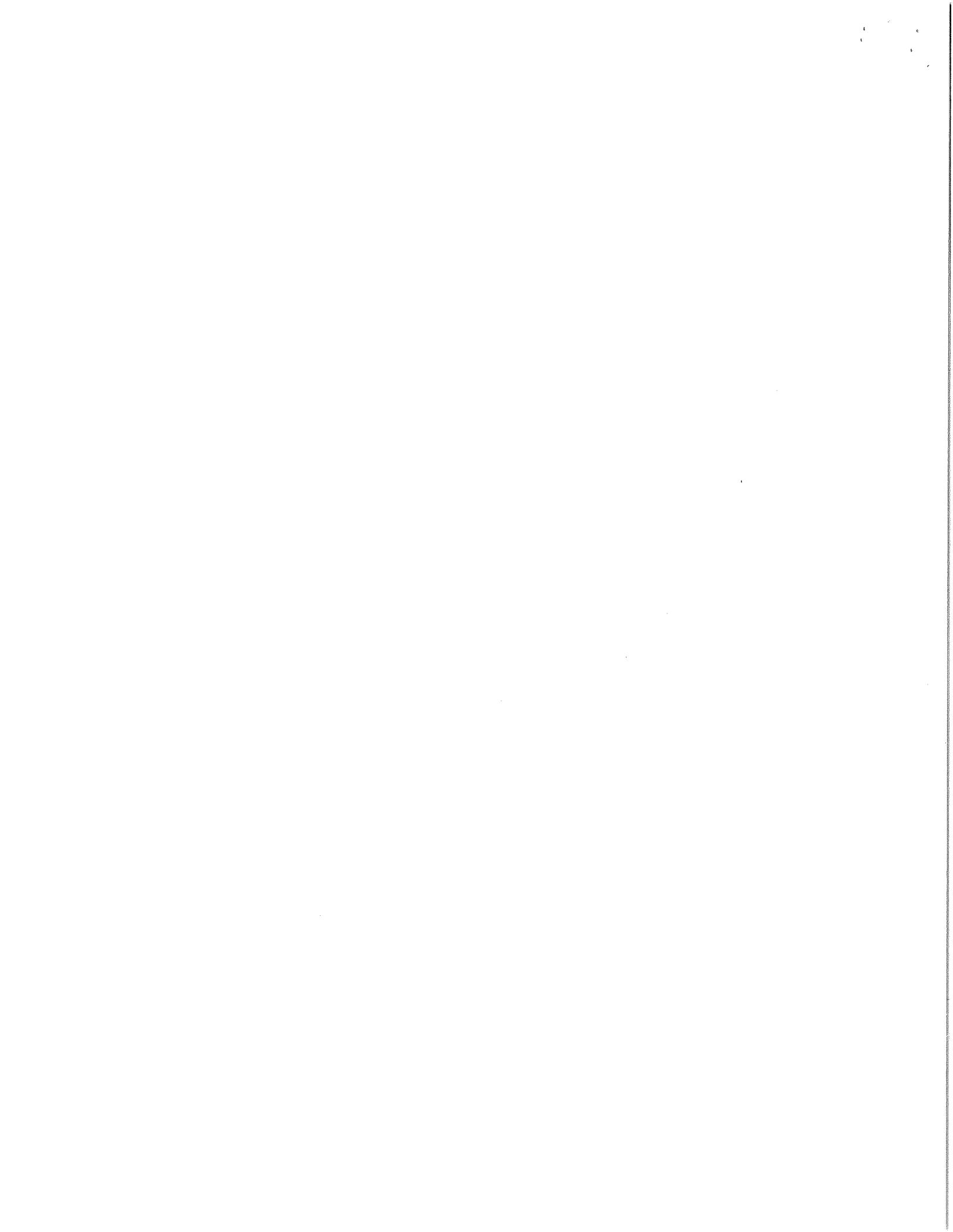
(4) Replacement cost endorsement; and,

(5) Primary coverage endorsement.

D. *Workers Compensation Insurance.* The Association shall obtain and maintain workers compensation insurance to the extent required by law (or such greater amount as the Board of Directors deems necessary). The Association shall obtain a Certificate of Insurance naming it as an additional insured in regard to workers compensation claims for any independent contractor who performs services for the Association.

Certificates of Insurance in regard to workers compensation shall remain in the office of the Association and shall be made available to any Owner for inspection during regular business hours.

E. *Construction Contractors Insurance.* The Board of Directors shall obtain a copy of a Certificate of Insurance naming the Association as an additional insured in regard to any construction contract prior to the commencement of any construction. Any construction contractor, in any trade, shall not commence work on the Property unless he/she maintains a minimal amount of liability insurance to be determined by the Board of Directors pursuant to the provisions of this Declaration. Certificates of Insurance regarding contractors' liability insurance shall remain in the on-site office of the Association and shall be made available to any Owner for inspection during regular business hours.



F. *Performance of Construction by an Owner-Member.* Any Owner or Member of the Association who makes any repairs to the Common Area, or makes any improvements to the Common Area, will indemnify and hold harmless the Association for any injury resulting in the performance of such activity.

G. *Directors and Officers Liability Insurance.* The Board of Directors shall maintain in force at the expense of the annual Assessment fund Directors' and Officers' Liability Insurance in the minimum amount of \$1 million.

H. *Other Insurance Coverage.* The Board of Directors may purchase and maintain in force at the expense of the annual Assessment fund debris removal insurance, fidelity bonds and other insurance and/or bonds that are necessary. The Board of Directors shall purchase and maintain workers compensation insurance to the extent of that required by law respecting employees of the Association. Any and all policies purchased pursuant hereto by the Association may be combined into one or more blanket or consolidated policy or policies.

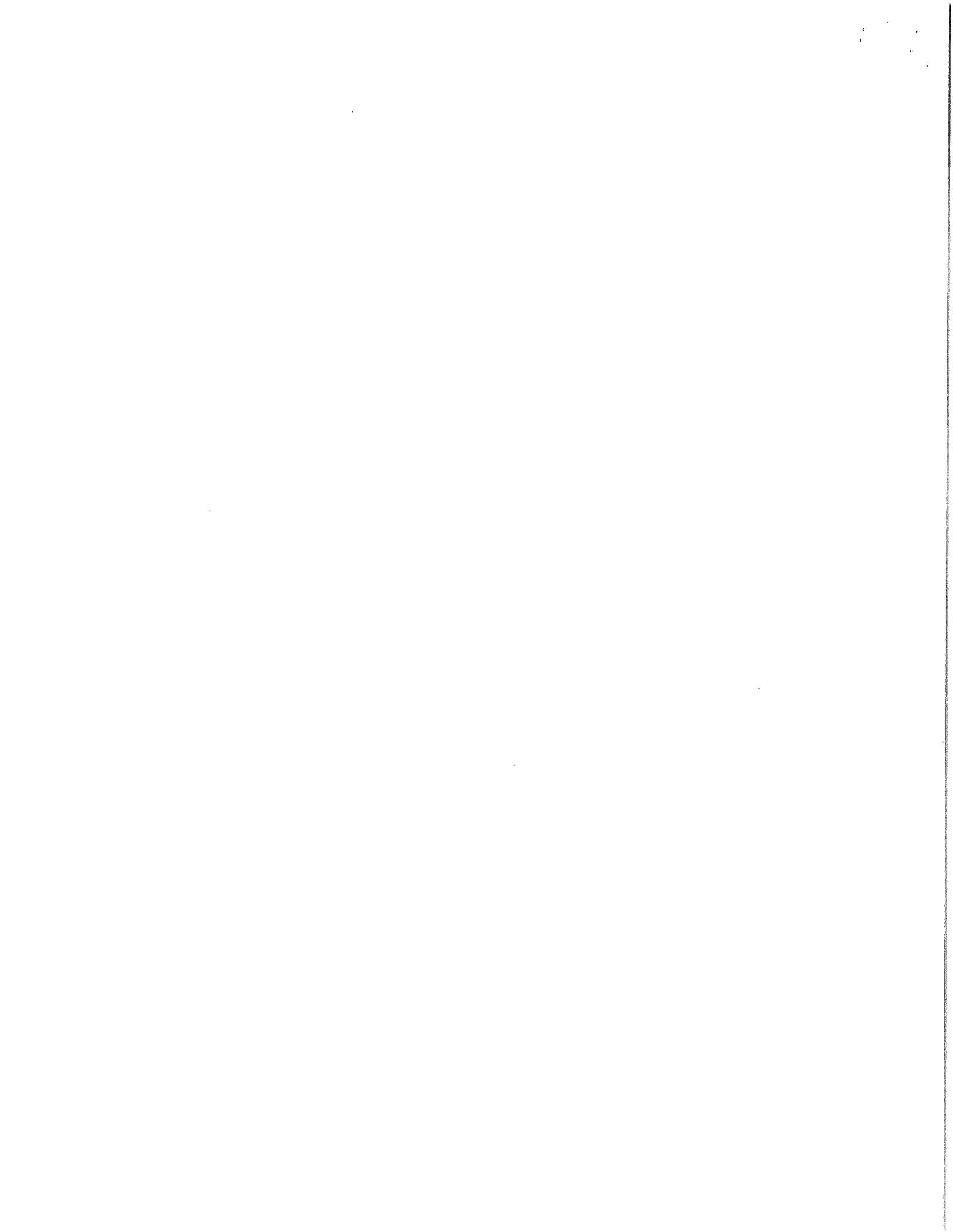
I. *Representation for Claims.* Each Owner appoints the Association or an insurance trustee designated by the Association to act on behalf of the Owners in connection with all insurance matters arising from any insurance policy maintained by the Association, including without limitation, representing the Owners in any proceeding, negotiation, settlement, or agreement.

J. *Waiver of Subrogation.* All insurance policies covering any portion of the Project shall contain a waiver of subrogation.

(1) Any insurance maintained by the Association shall contain a waiver of subrogation as to the Association and its officers, directors and Members, the Owners and occupants of the Lot and Mortgagees, and, if obtainable, a cross-liability or severability of interest endorsement insuring each insured against liability to each other insured.

(2) All individually owned insurance shall contain a waiver of subrogation as to the Association and its officers, directors and Members, the Owners and occupants of the Lots and Mortgagees, and all Members are deemed to have waived subrogation rights as to the Association and/or other Members, whether or not their policies so provide.

K. *Limitation on Liability.* The Association and its directors and officers, shall have no liability to any Owner or Mortgagee if, after a good faith effort, it is unable to obtain the insurance required hereunder, because the insurance is no longer available or, if available, can only be obtained at a cost that the Board of Directors in its sole discretion determines is unreasonable under the circumstances, or the Members fail to approve any Assessment increase needed to fund the insurance premiums. In such event, the Board of Directors shall notify each Member and any Mortgagee entitled to notice that the insurance will not be obtained or renewed.



8.2. *Limited Liability of Volunteer Officer or Director; Scope of Duties.*

(A) A volunteer officer or volunteer director of an Association that manages a common interest development that is exclusively residential, shall not be personally liable in excess of the coverage of insurance specified in paragraph (D) 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 volunteer officer or volunteer 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 which shall include, but shall not be limited to, both of the following decisions:

(a) Whether to conduct an investigation of the common interest development for latent deficiencies prior to the expiration of the applicable statute of limitations.

(b) Whether to commence a civil action against the builder for defects in design or construction.

(2) The act or omission was performed in good faith.

(3) The act or omission was not willful, wanton, or grossly negligent.

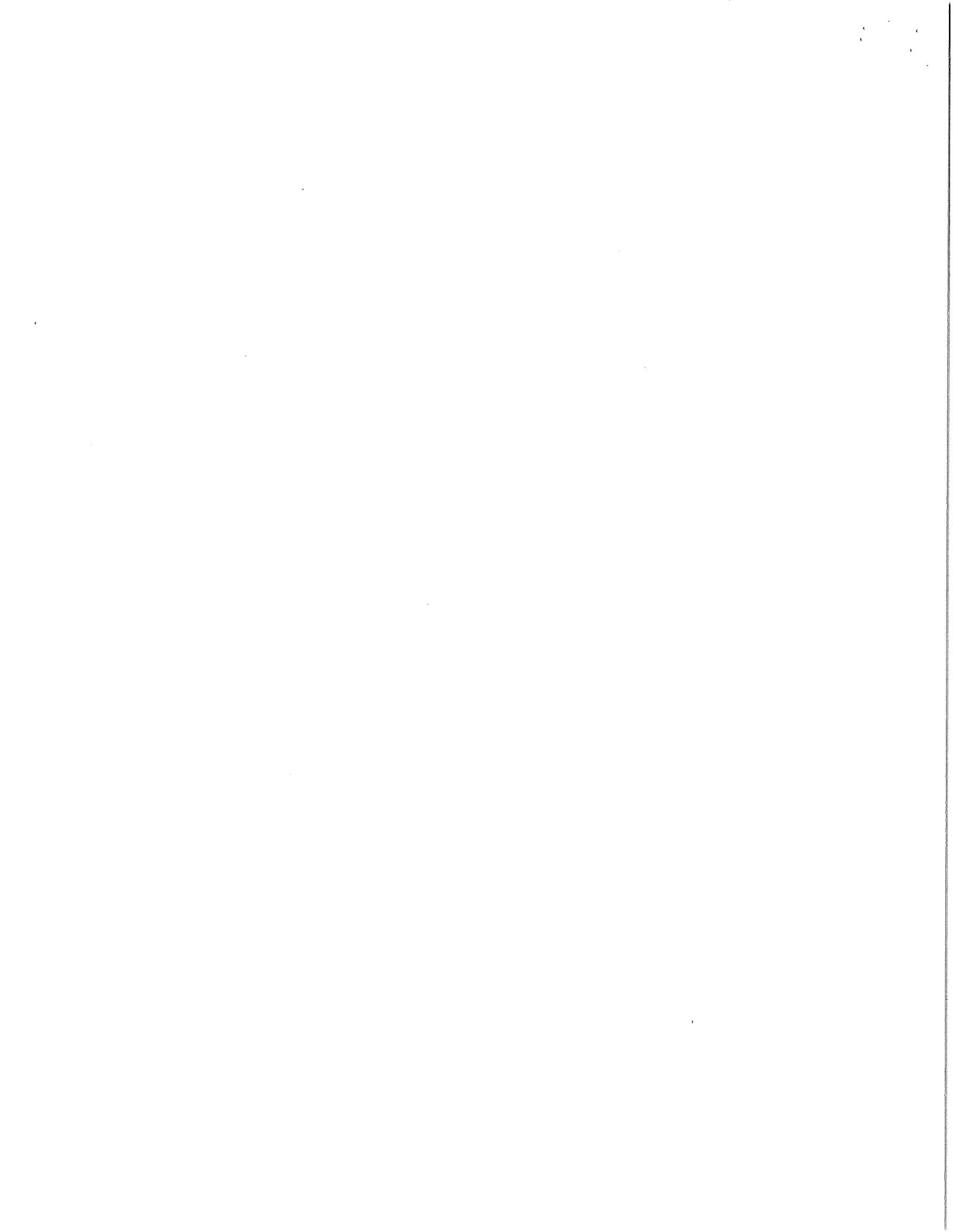
(4) The Association maintained and had in effect at the time the act or omission occurred and at the time a claim is made one or more policies of insurance that shall include coverage for (i) general liability of the Association and (ii) individual liability of officers and directors of the Association for negligent acts or omissions in that capacity; provided that both types of coverage are in the following minimum amounts:

(a) At least five hundred thousand dollars (\$500,000) if the common interest development consists of 100 or fewer separate interests. providing Legal Services To Community Associations Throughout California

(b) At least one million dollars (\$1,000,000) if the common interest development consists of more than 100 separate interests.

(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 a volunteer within the meaning of this section.

(C) An officer or director who at the time of the act or omission was a Declarant, 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.



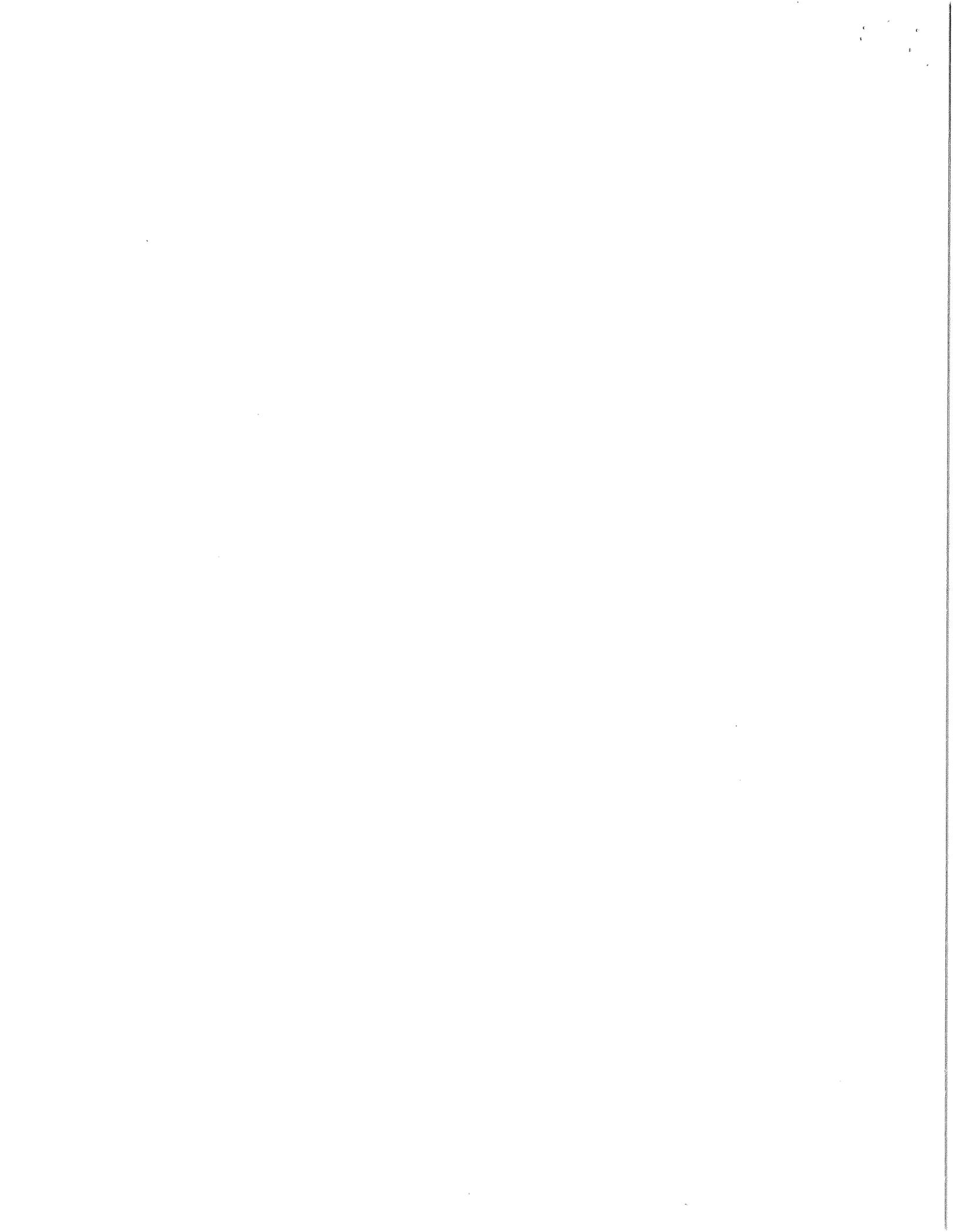
(D) Nothing in this section shall be construed to limit the liability of the Association for its negligent act or omission or for any negligent act or omission of an officer or director of the Association.

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

8.3 *Damage or Destruction.* If Common Area improvements are damaged or destroyed by fire or other casualty, the improvements shall be repaired or reconstructed substantially in accordance with the original as-built plans and specifications, modified as may be required by applicable building codes and regulations in force at the time of repair or reconstruction, unless either of the following occurs: (i) the cost of repair or reconstruction is more than fifty percent (50%) of the current replacement costs of all Property improvements, available insurance proceeds are not sufficient to pay for at least eighty-five percent (85%) of the cost of those repairs or reconstruction, and three-fourths of the Members and their First Lenders vote against the repair and reconstruction; or (ii) available insurance proceeds are not sufficient to substantially repair or reconstruct the improvements within a reasonable time as determined by the Board of Directors, a special Assessment levied to supplement the insurance fails to receive the requisite approval (if that approval is required) as provided in this Declaration, and the Board of Directors, without the requirement of approval of the Owners, is unable to supplement the insurance by borrowing on behalf of the Association sufficient moneys to enable the improvements to be substantially repaired or reconstructed within a reasonable time.

A. *Process for Repair or Reconstruction.* If the improvement is to be repaired or reconstructed and the cost for repair or reconstruction is in excess of twenty-five percent (25%) of the current replacement cost of all the Property improvements, the Board of Directors shall designate a construction consultant, a general contractor, and an architect for the repair or reconstruction. All insurance proceeds, Association moneys allocated for the repair or reconstruction, and any borrowings by the Association for the repair or reconstruction shall be deposited with a commercial lending institution experienced in the disbursement of construction loan funds (the "depository") as selected by the Board of Directors. Funds shall be disbursed in accordance with the normal construction loan practices of the depository.

B. *Process If Repair or Reconstruction Not Undertaken.* If the improvements are not required to be repaired or reconstructed in accordance with the foregoing, all available insurance proceeds shall be disbursed among Owners and their respective mortgagees in proportion to the respective fair market values of their Lots as of the date immediately preceding the date of the damage or destruction as determined by a qualified independent appraiser selected by the Board of Directors, after first applying the proceeds to the cost of mitigating hazardous conditions on the Common Area, making provision for the continuance of public liability insurance to protect the interests of the Owners, and complying with all other applicable requirements of governmental agencies.



8.4. *Condemnation of Common Area.* The Association shall represent the Owners in any condemnation proceedings or in negotiations, settlements, and agreements with the condemning authority for acquisition of the Common Area or any part of the Common Area. In the event of a taking or an acquisition of part or all of the Common Area by a condemning authority, the award or proceeds of settlement shall be payable to the Association, or to any trustee appointed by the Association, for the use and benefit of the Owners and their mortgagees as their interests may appear.

8.5. *Condemnation of Project.* If there is a substantial taking of the Project, the Owners may terminate the legal status of the Project and, if necessary, bring a partition action under California Civil Code section 4610 or any successor statute, on the election to terminate by fifty-one percent (51%) of the total voting power of the Association and the approval of Eligible Mortgage Holder Mortgages. The proceeds from the partition sale shall be distributed to the Owners and their respective mortgagees in proportion to the fair market values of their Lot as determined under the provision of this Declaration.

ARTICLE IX

ARCHITECTURAL COMMITTEE

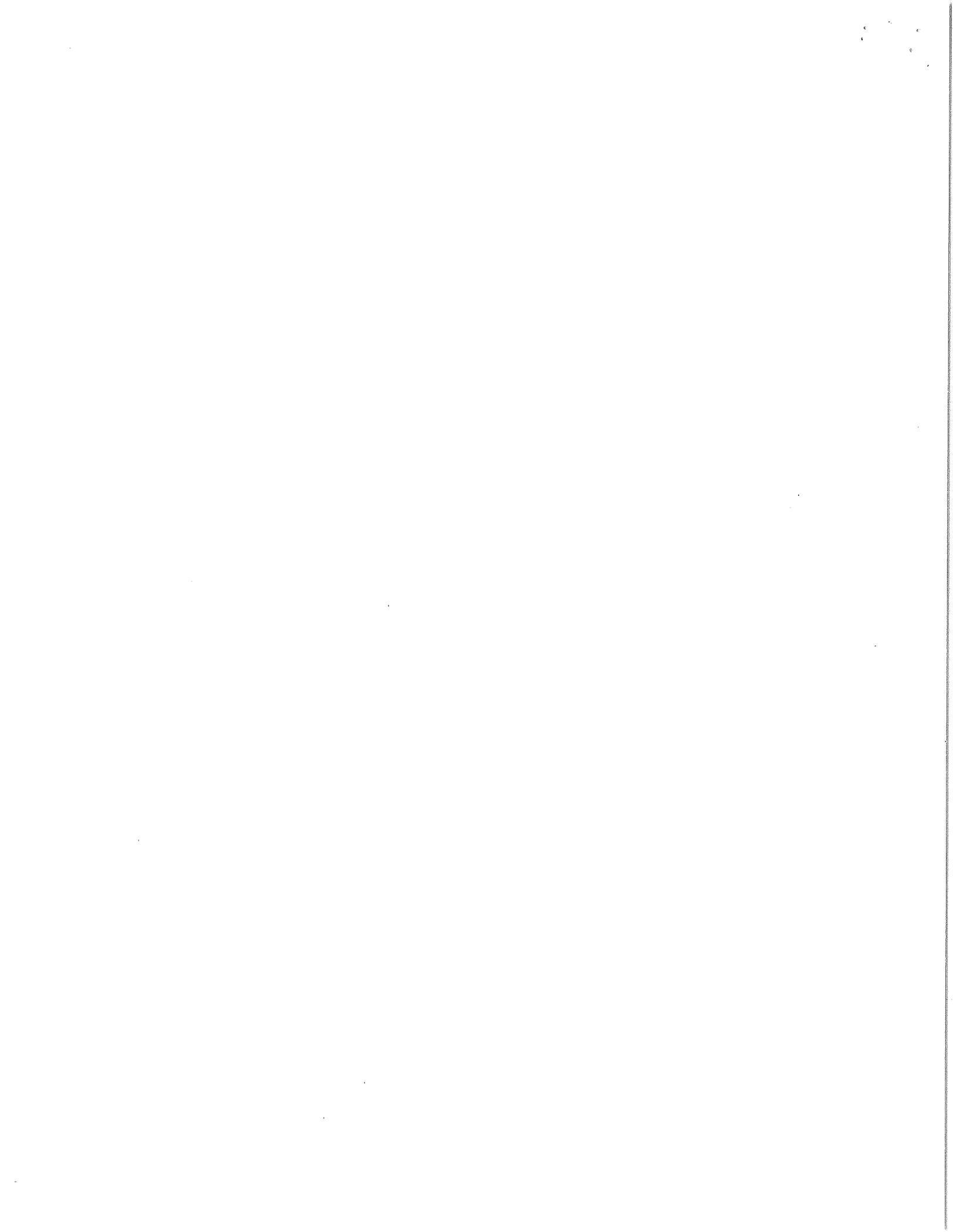
9.1. *Committee Members.* The Architectural Committee shall consist of three (3) members.

A. *Initial Committee Members Appointed by Declarant.* Declarant shall appoint all of the initial members of the Architectural Committee and all replacements until the first anniversary of the issuance of the original public report for the Project. Declarant reserves to himself the power to appoint a majority of the committee members until ninety percent (90%) of all the subdivision interests in the Project have been sold or until the fifth anniversary of the issuance of the Final Public Report, whichever occurs first.

B. *Committee Members Appointed by Association.* After one (1) year from the date of issuance of the original public report for the Project, the Board of Directors shall have the power to appoint one (1) member to the Architectural Committee until ninety percent (90%) of all the subdivision interests in the Project have been sold or until the fifth anniversary of the issuance of the Final Public Report, whichever occurs first. Thereafter the Board of Directors shall have the power to appoint all of the members of the Architectural Committee.

9.2. *Meetings.* The Architectural Committee shall meet from time to time as necessary properly to perform its duties hereunder. Any two (2) members of the committee shall constitute a quorum. The vote or written consent of any two (2) members shall constitute an act by the committee. The committee shall keep and maintain a record of all its actions.

9.3. *Approval Required.* Any Owner who proposes to construct a new structure, reconstruct an existing structure, or make significant alterations to the character of an existing structure shall submit a complete set of design plans to the Architectural Committee for review and approval prior to filing for the necessary permits from the local building and planning.



9.4. *Procedure.* Within fifteen (15) days after submittal of design plans the Architectural Committee shall schedule a meeting with the Owner during which the proposal will be discussed and evaluate for conformity with the Requirements contained in this Declaration and the Conditions of Approval for the Subdivision Map. At the conclusion of the meeting the committee shall take a vote to approve the design plans. A vote to deny the design plans shall be accompanied by a list of items to be addressed prior to approval.

9.5. *Liability.* Neither the Architectural Committee nor any member thereof shall be liable to any Owner or to any other party for any damages, loss or prejudice suffered or claim on account of (i) the approval or disapproval of any plans, drawings, specifications or (ii) the construction or performance of any work, whether or not pursuant to approved plans, drawings and specifications. It shall be presumed that the Architectural Committee, or individual members thereof, have acted in good faith on the basis of actual knowledge within their/his/her possession.

9.6. *Governmental Approval Required.* Before commencement of any alteration or improvements approved by the Architectural Committee, the Owner shall comply with all the appropriate governmental laws and regulations. Approval by the Architectural Committee does not satisfy the appropriate approvals that may be required by the City of San Luis Obispo or any governmental entity with

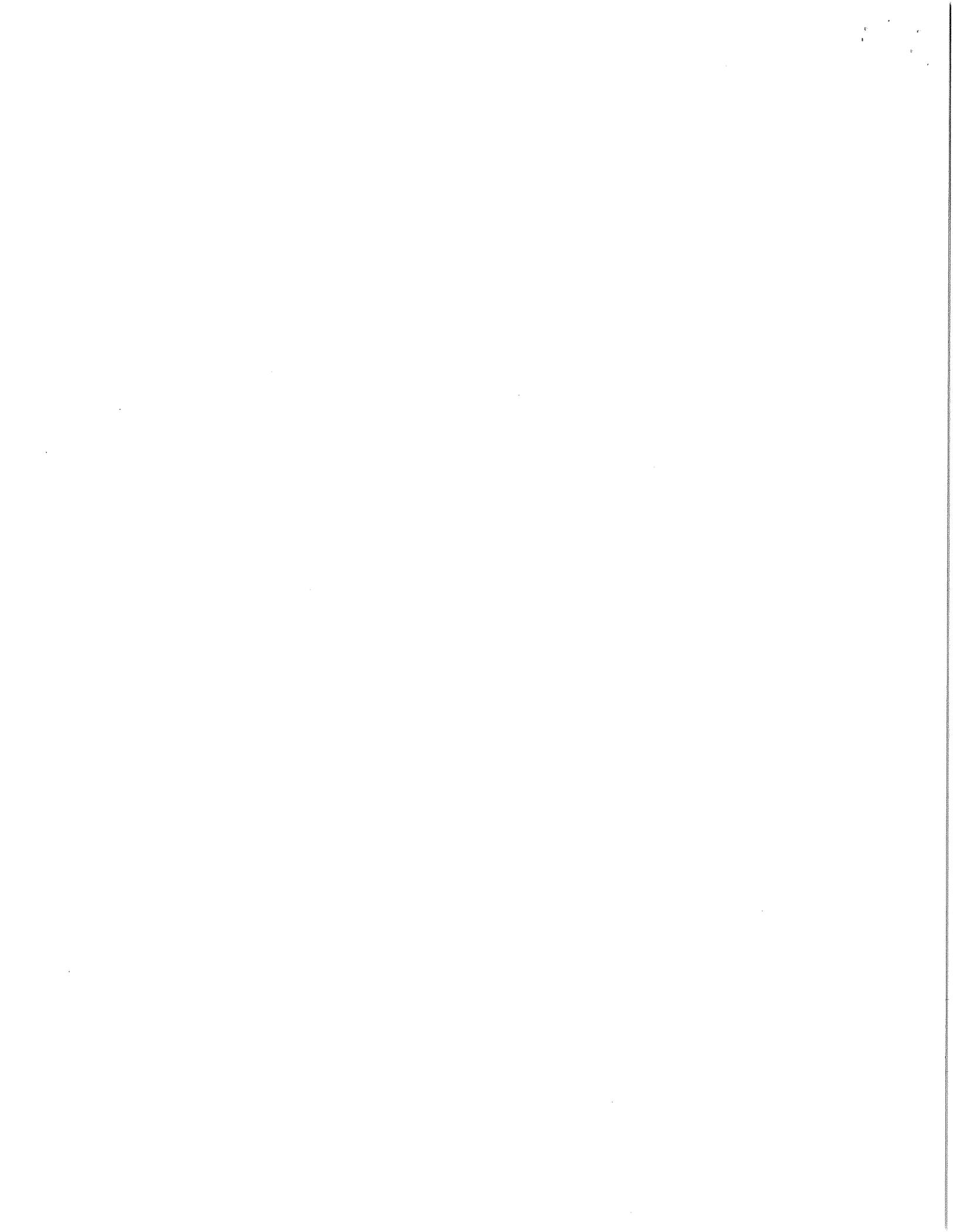
9.7. *Failure to Respond.* In the event the Architectural Committee fails to approve or disapprove such design and location within thirty (30) days after the plans and specifications have been submitted to it, approval will not be required, and the provisions of this Declaration shall be deemed to have been complied with in full.

ARTICLE X

GENERAL PROVISIONS

10.1. *Enforcement.* The Association subject to compliance with California Civil Code section 5975, or any Owner, shall have the right to enforce, by any proceeding at law or in equity, all restrictions, conditions, covenants, reservations, liens, and charges now or hereafter imposed by the provisions of this Declaration, the Articles, and the Bylaws, and in that action shall be entitled to recover reasonable attorney fees as are ordered by the court. Failure by the Association or by any Owner to enforce any covenant or restriction contained in this Declaration shall in no event be deemed a waiver of the right to do so thereafter.

A. *Forfeiture of Rights.* The Association may not cause a forfeiture or abridgement of an Owner's right to the full use and enjoyment of his individual ownership interest on account of the failure by Owner to comply with provisions of the governing instruments or of duly enacted rules of operation for common areas and facilities except by judgment of a court or a decision arising out of arbitration or on account of a Foreclosure or sale under a power of sale for failure of the owner to pay assessments duly levied by the Association.

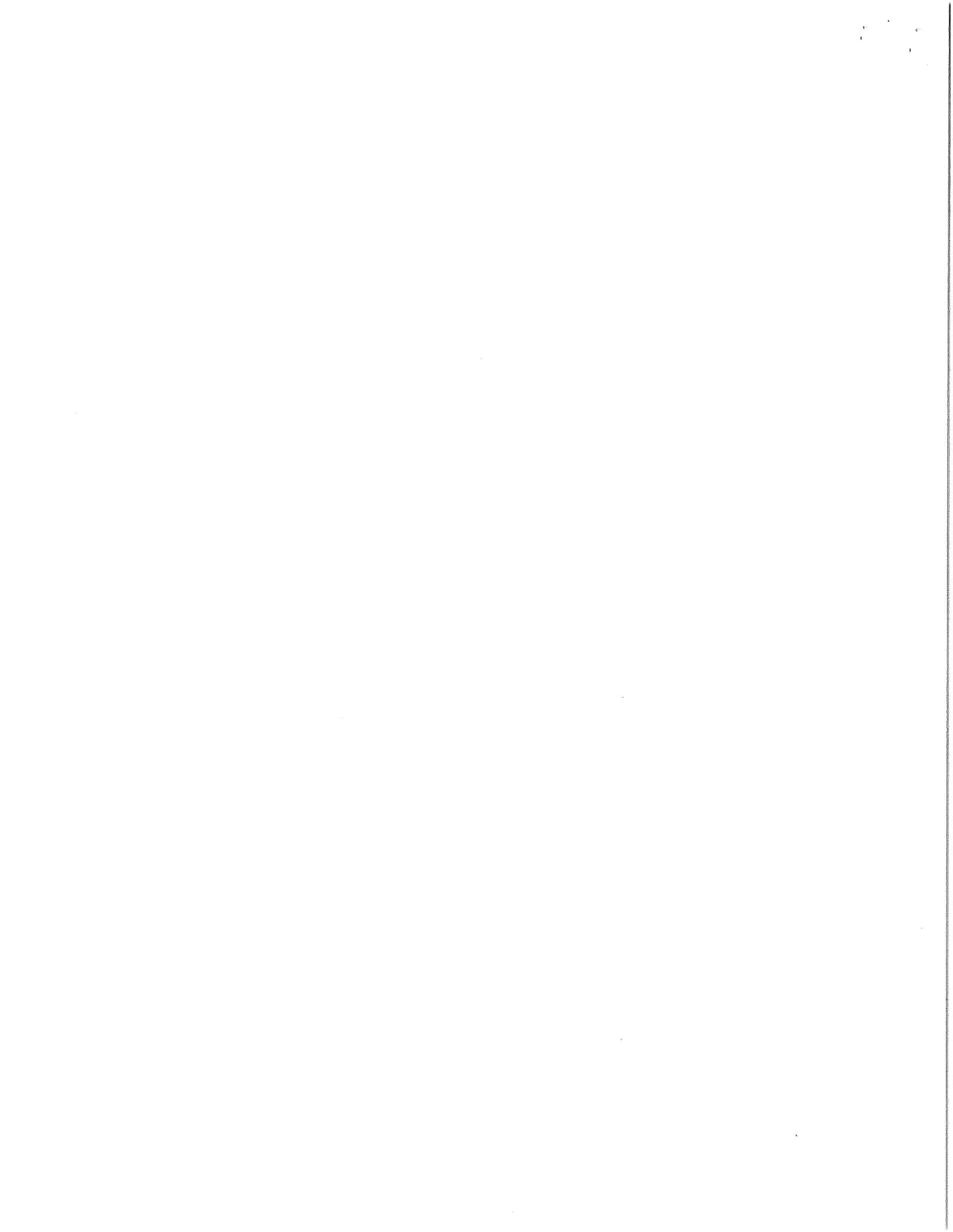


B. *Imposition of Penalties.* The Board of Directors may impose monetary penalties, temporary suspensions of an Owner's rights as a member of the Association or other appropriate discipline for failure to comply with the governing instruments provided that the procedures for notice and hearing, satisfying the minimum requirements of California Civil Code section 5855 are followed with respect to the accused member before a decision to impose discipline is reached. A monetary penalty imposed by the Association as a disciplinary measure for failure of a member to comply with the governing instruments or as a means of reimbursing the Association for costs incurred by the Association in the repair of damage to common areas and facilities for which the member was allegedly responsible or in bringing the member and his subdivision interest into compliance with the governing instruments may not be characterized nor treated in the governing instruments as an assessment which may become a lien against the member's subdivision interest enforceable by a sale of the interest in accordance with the provisions of California Civil Code sections 2924, 2924(b) and 2924(c).

10.2. *Invalidity of Any Provision.* Should any provision or portion of this Declaration be declared invalid or in conflict with any law of the jurisdiction where this Property is situated, the validity of all other provisions and portions shall remain unaffected and in full force and effect.

10.3. *Term.* The covenants and restrictions of this Declaration shall run with and bind the Property, and shall inure to the benefit of and shall be enforceable by the Association or the Owner of any property subject to this Declaration, their respective legal representatives, heirs, and successors and assigns, for a term of twenty-one (21) years from the date this Declaration is recorded, after which they shall be automatically extended for successive periods of ten (10) years, unless an instrument in writing, signed by a majority of the then Owners of the Lots and the City of San Luis Obispo, has been recorded within the year preceding the beginning of each successive period of ten (10) years, agreeing to change the covenants and restrictions in whole or in part, or to terminate same.

10.4. *Amendments.* This Declaration may be amended only by the affirmative vote (in person or by proxy) or written consent of Members representing a majority of the total voting power of the Association and at least a bare majority of the votes of members other than the Subdivider. However, the percentage of voting power necessary to amend a specific clause shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause. Any such amendment must be certified in a writing executed and acknowledged by the President or Vice President of the Association and shall become effective upon recordation in the office of the County Recorder of the County of San Luis Obispo, State of California. Before the close of the first escrow (first sale) of a Lot in the Project to a purchaser other than the Declarant, this Declaration and any amendments to it may be amended in any respect or revoked by the execution by Declarant by a recorded instrument amending or revoking the. Notwithstanding any other provision of this Declaration, no amendment, change, modification, or termination of the conditions, covenants, and restrictions of this Declaration that relate to any of the Conditions of Approval for Tract 2428 shall be effective unless approved in writing by the City of San Luis Obispo, including Sections 1.1, 1.7, 1.8, 1.19, 1.26, 1.27, 2.2.B, 2.4, 2.7, 2.9, 3.4, 3.5.C(1), 3.5.C(2), 3.5.G, 6.1.A, 6.1.B, 7, 10.3, 10.4, and 10.5 hereto.



10.5. *Annexation.* The Annexable Property may be added to the Project by Declarant as one or more subsequent Phases without the approval of the Association or any Owner. Otherwise, any other property may be annexed to the Project only with the approval of two-thirds (67%) of each class of Members of the total votes residing in Association members other than the Subdivider.

A. The plan for phased development through annexation referred to in subdivision (a) must include, but need not be limited to, the following:

(1) Proof satisfactory to the Commissioner that no proposed annexation will result in an overburdening of common facilities.

(2) Proof satisfactory to the Commissioner that no proposed annexation will cause a substantial increase in assessments against existing owners which was not disclosed in subdivision public reports under which pre-existing owners purchased their interests.

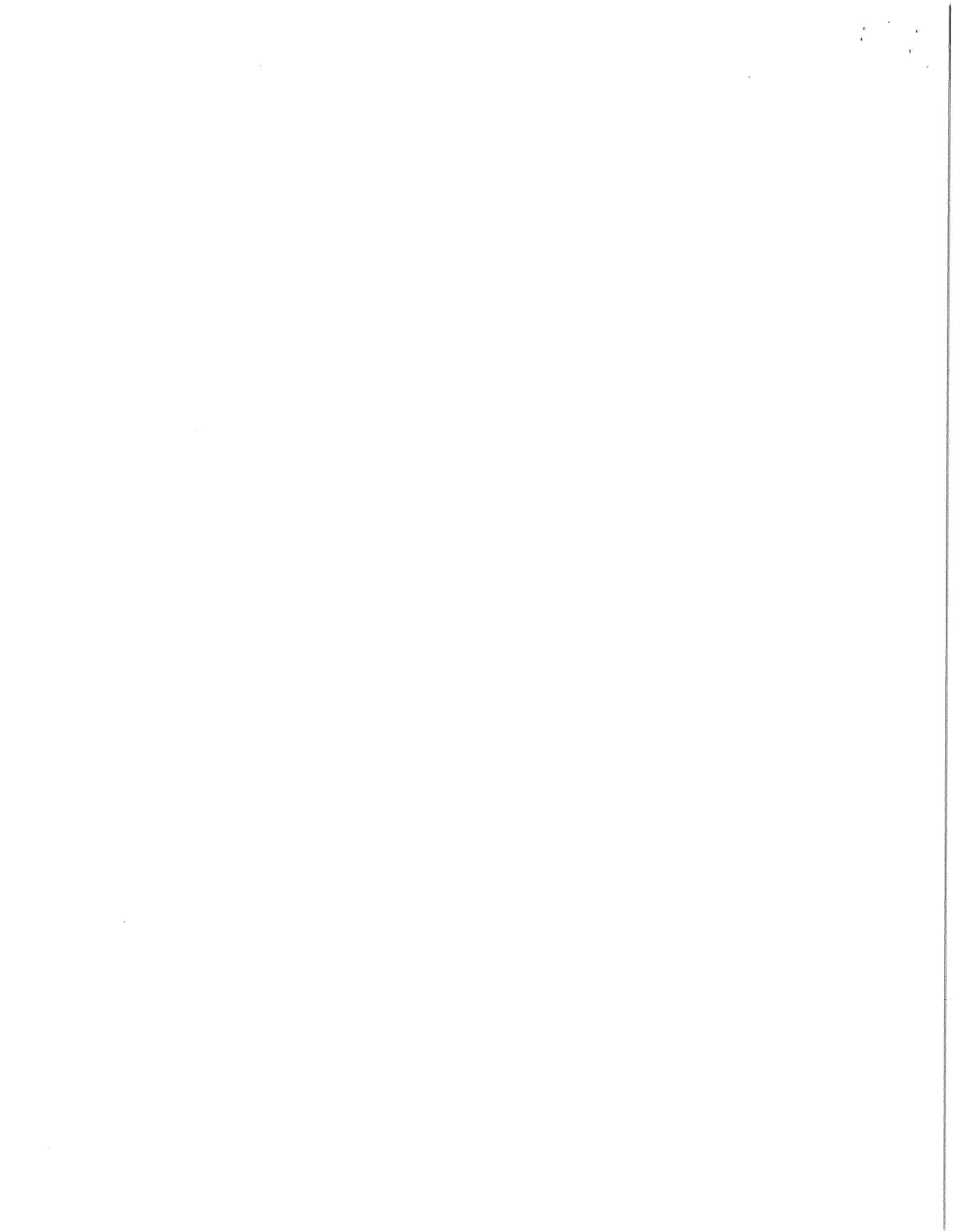
(3) Identification of the land proposed to be annexed and the total number of residential units then contemplated by the subdivider for the overall subdivision development.

(4) A written commitment by the subdivider to pay to the Association, concurrently with the closing of the escrow for the first sale of a subdivision interest in an annexed phase, appropriate amounts for reserves for replacement or deferred maintenance of common area improvements in the annexed phase necessitated by or arising out of the use and occupancy of residential units under a rental program conducted by the subdivider which has been in effect for a period of at least one year as of the date of closing of the escrow for the first sale of a residential unit in the annexed phase.

10.6 *Rights of First Lenders.* No breach of any of the covenants, conditions, and restrictions contained in this Declaration, nor the enforcement of any of its lien provisions, shall render invalid the lien of any First Mortgage on any Lot made in good faith and for value, but all of those covenants, conditions, and restrictions shall be binding upon and effective against any Owner whose title is derived through Foreclosure or trustee's sale, or otherwise. A lien for regular or special assessments against an owner may be made subordinate by the CC&R's to the lien of any first mortgage or first deed of trust (hereafter collectively "First Encumbrance") against subdivision interests of the owner. Documents to the contrary, First Lenders shall have the rights and protections set forth in the following paragraphs:

A. *Copies of Property Documents.* The Association shall make available to Lot Owners and First Lenders, and to holders, insurers, or guarantors of any First Mortgage, current copies of this Declaration, Bylaws, Articles, and other Rules concerning the Property, and the books, records, and financial statements of the Association. "Available" means available for inspection and copying, upon request, during normal business hours or under other reasonable circumstances. The Board of Directors may impose a fee for providing the requested documents, which fee may not exceed the reasonable cost to prepare and reproduce them.

B. *Audited Statement.* Any holder, insurer, or guarantor of a First Mortgage shall be entitled, upon written request, to an audited financial statement for the immediately preceding



fiscal year, free of charge to the party so requesting. The statement shall be furnished within one hundred twenty (120) days of the Association's fiscal year.

C. *Notice of Action.* Upon written request to the Association, identifying the name and address of the Eligible Mortgage Holder or Eligible Insurer or Guarantor, and the Lot number, that Eligible Mortgage Holder or Eligible Insurer or Guarantor will be entitled to timely written notice of:

(1) Any condemnation loss or casualty loss that affects a material portion of the Property or any Lot on which there is a First Mortgage held, insured, or guaranteed by that Eligible Mortgage Holder or Eligible Insurer or Guarantor, as applicable;

(2) Any default in performance of obligation under the Property Documents or delinquency in the payment of Assessments or charges owed by an Owner of a Lot subject to a First Mortgage held, insured, or guaranteed by that Eligible Mortgage Holder or Eligible Insurer or Guarantor, which default remains incurred for a period of sixty (60) days;

(3) Any lapse, cancellation, or material modification of any insurance policy or fidelity bond maintained by the Association; and

(4) Any proposed action that would require the consent of a specific percentage of Eligible Mortgage Holders as specified in the provisions of this Declaration.

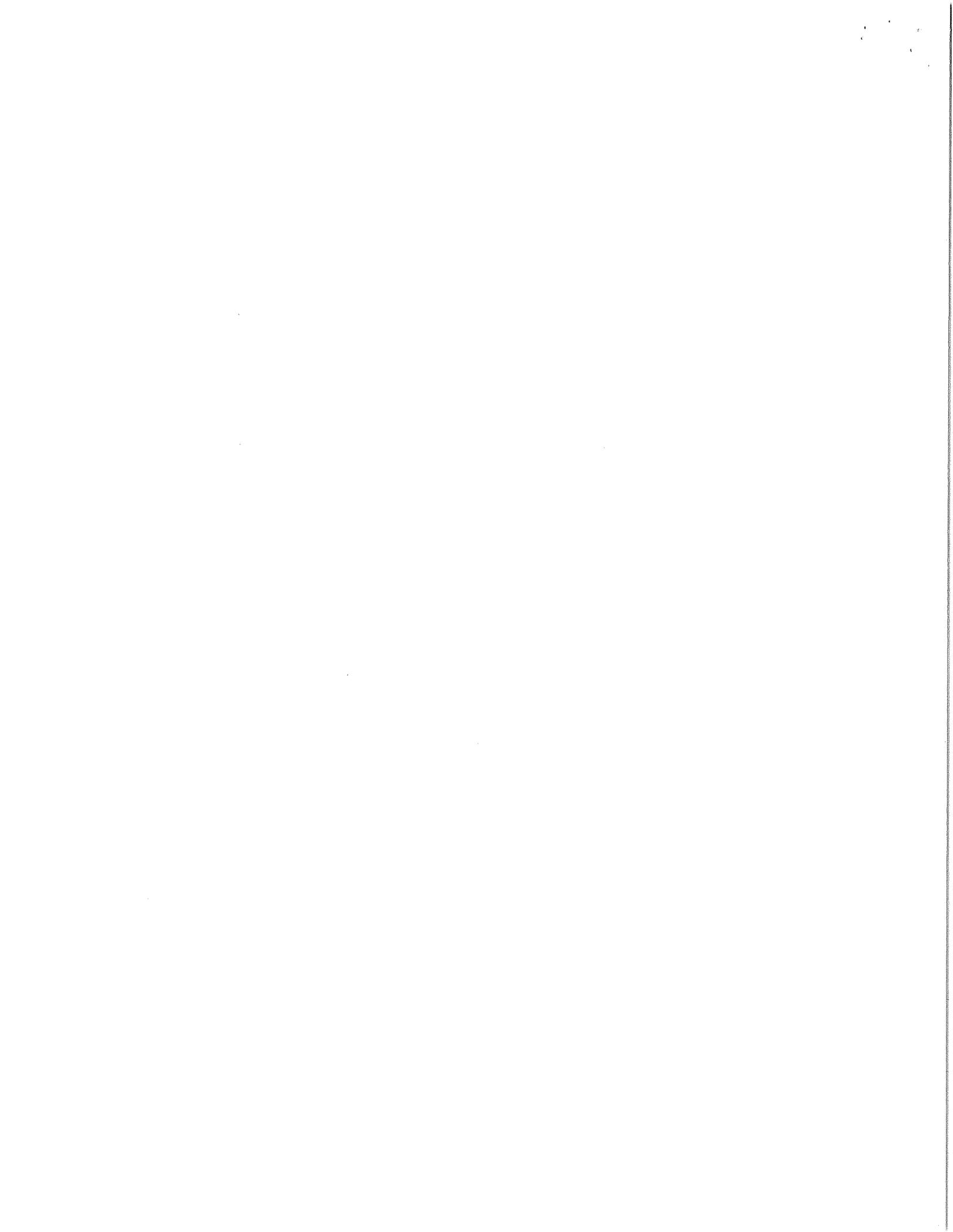
The Association shall discharge its obligation to notify Eligible Mortgage Holders or Eligible Insurers or Guarantors by sending written notices required by this Declaration to them at the address given on the current request for notice in the manner prescribed by the provisions of this Declaration.

D. *Consent.*

(1) Except as provided by statute or by other provision of the Project Documents in case of substantial destruction or condemnation of the Project:

(a) The consent of Owners of Lots to which at least sixty-seven percent (67%) of the votes in the Association are allocated, and the approval of Eligible Mortgage Holder Mortgages, shall be required to terminate the legal status of the Project as a common interest project; provided however, that if termination is for reasons other than substantial destruction or condemnation, the agreement of Eligible Mortgage Holder representing at least sixty-seven percent (67%) of the votes of the mortgaged Lots is required;

(b) The consent of Owners of Lots to which at least sixty-seven percent (67%) of the votes in the Association are allocated, and the approval of Eligible Mortgage Holders holding mortgages on Lots that have at least fifty-one percent (51%) of the votes of the Lots subject to Eligible Holder Mortgages, shall be required to add or amend any material provisions of the Project Documents that establish, provide for, govern, or regulate any



of the following: (i) voting rights; (ii) assessment liens, the priority of assessment liens, or increases in Assessments that raise the previously assessed amount by more than twenty-five percent (25%); (iii) responsibility for maintenance and repairs; (iv) reallocation of interests in the general Common Areas, or rights to their use; (v) convertibility of Lots into Common Areas or vice-versa; (vi) expansion or contraction of the Project, or the addition, annexation, or withdrawal of property to or from the Project; (vii) hazard or fidelity insurance requirements; (viii) imposition of any restrictions on the leasing of the Lots; (ix) imposition of any restrictions on an Owner's right to sell or transfer his/her Lot; (x) restoration or repair of the Project (after damage or partial condemnation) in a manner other than that specified in the Project Documents; or (xi) any provisions that expressly benefit mortgage holders, insurers, or guarantors;

(c) An Eligible Mortgage Holder who receives a written request to approve additions or amendments without delivering or posting to the requesting party a negative response within thirty (30) days after the notice of the proposed addition or amendment shall be deemed to have approved that request, provided the notice has been delivered to the Eligible Mortgage Holder by certified or registered mail, return receipt requested.

(2) Except as provided by statute in case of condemnation or substantial loss to the Lots or common elements of the Project, unless the holders of at least sixty-seven percent (67%) of the First Mortgages (based upon one (1) vote for each First Mortgage owned) of the Owners of the individual Lots have given their prior written approval, the Association or the Owners shall not be entitled to:

(a) By act or omission, seek to abandon or terminate the Project as a common interest project (except for abandonment or termination provided by law in the case of substantial destruction by fire or other casualty or in the case of a taking by condemnation or eminent domain);

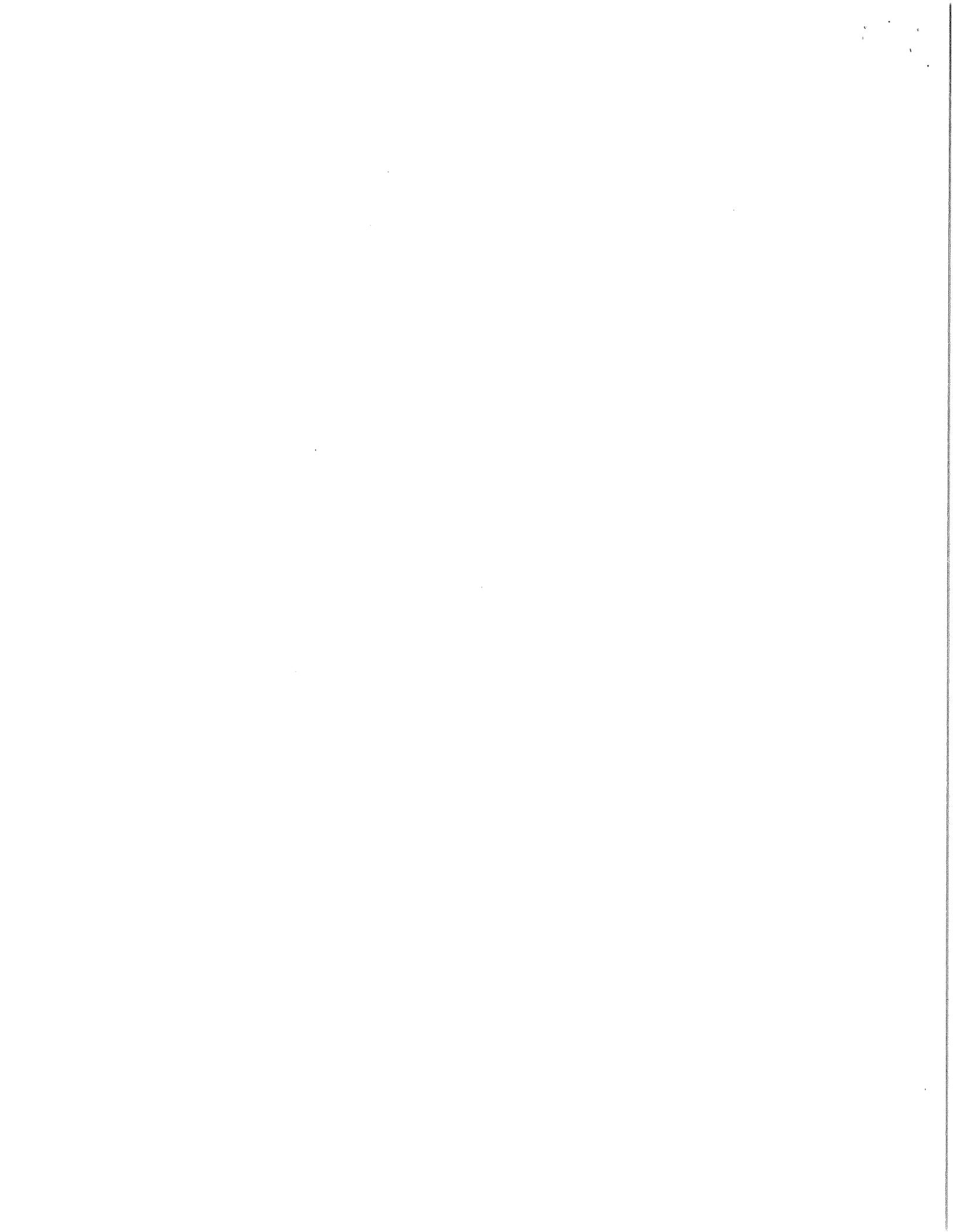
(b) Change the pro rata interest or obligation of any individual Lot for the purpose of levying Assessments or charges or allocating distributions of hazard insurance proceeds or condemnation awards;

(c) Partition or subdivide any Lot;

(d) By act or omission, seek to abandon, partition, subdivided, encumber, sell, or transfer the Common Area. (The granting of easements for public utilities or for other public purposes consistent with the intended use of the Common Area shall not be deemed a transfer with the meaning of this clause); or

(e) Use hazard insurance proceeds for losses to any of the Project (whether to Lots or to Common Area) for other than the repair, replacement, or reconstruction of the Project.

E. *Right of First Refusal.* The right of an Owner to sell, transfer, or otherwise convey his or her Lot shall not be subject to any right of first refusal or similar restriction.



F. *Contracts.* Any agreement for professional management of the Project, or lease or any other contract providing for services may not exceed one (1) year. Any agreement for professional management shall provide for termination by either party for cause on thirty (30) days' written notice, or without cause and without payment of a termination fee or penalty on ninety (90) days' written notice or less.

G. *Distribution of Insurance or Condemnation Proceeds.* No provision of the Project Documents gives an Owner or any other party priority over any rights of First Lenders in the case of a distribution to Owners of insurance proceeds or condemnation awards for losses to or taking of Lots or Common Areas.

H. *Status of Loan to Facilitate Resale.* Any First Mortgage given to secure a loan to facilitate the resale of a Lot after acquisition by Foreclosure, or by deed in lieu of Foreclosure or by an assignment in lieu of Foreclosure, shall be deemed to be a loan made in good faith and for value and entitled to all the rights and protections of mortgages under this Declaration.

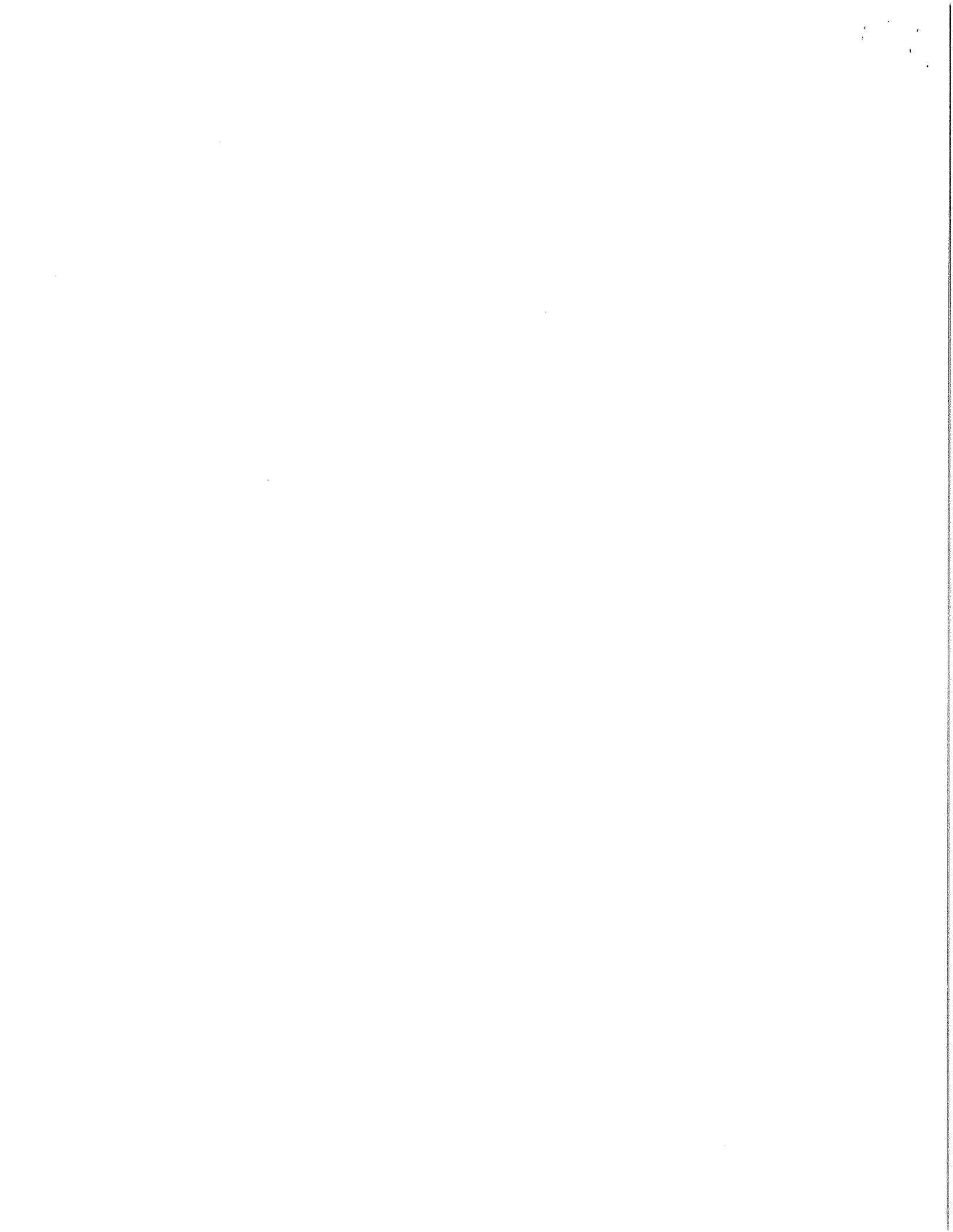
I. *Right to Appear at Meetings.* Any Eligible Mortgage Holder may appear (but cannot vote) at meetings of Owners and the Board of Directors to draw attention to violations of this Declaration that have not been corrected or that have been made the subject of remedial proceedings or Assessments.

10.7. *Owner's Compliance.* Each Owner or Owner's tenant shall comply with the provisions of this Declaration and, to the extent they are not in conflict with this Declaration, with the Articles and Bylaws, and the decisions and resolution of the Association or the Board of Directors, as lawfully amended from time to time. Failure to comply with any of these provisions, decisions, or resolutions shall be grounds for an action (i) to recover sums due, (ii) for damages, (iii) for injunctive relief, (iv) for costs and attorney fees, or (v) any combination of the foregoing.

A. In the event of a violation of the Project Documents, the Association may, if permitted by applicable law, record a Notice of Violation against the Lot of the non-complying Owner. Upon recording a Notice of Violation, the Association shall have complete discretion in deciding whether, when, and how to proceed with enforcement, and any delay after recording a Notice of Violation shall not give rise to a defense of waiver or estoppel in favor of a non-complying Owner. The Association may take action to enforce compliance against a subsequent Owner who acquires a Lot with a recorded Notice of Violation. The right of the Association to record a Notice of Violation shall be in addition to all other rights and remedies the Association may have at law or under the Project Documents.

B. All agreements and determinations lawfully made by the Association in accordance with the voting percentages established in this Declaration or in the Articles or the Bylaws shall be deemed to be binding on all Owners and their successor and assigns.

10.8. *Notice.* Any notice permitted or required by this Declaration or Bylaws may be delivered by mail and shall be deemed to have been delivered seventy-two (72) hours after a copy of the



notice has been deposited with the United States Postal Service, first class or registered, postage prepaid, addressed to the person to be notified at the current address given by that person to the Secretary of the Board of Directors or addressed.

10.9. *Alternative Dispute Resolution.* The Board of Directors is authorized to consider diversion of the prosecution or defense of any civil action to alternative dispute resolution proceedings, such as mediation, non-binding arbitration, or binding arbitration, and is authorized to agree to participate and to participate fully and in good faith in the resolution of any civil action through any alternative dispute resolution proceedings, including, but not limited to mediation, non-binding arbitration, and binding arbitration, and paying costs reasonably incurred by the Association on account of those alternative dispute resolution proceedings.

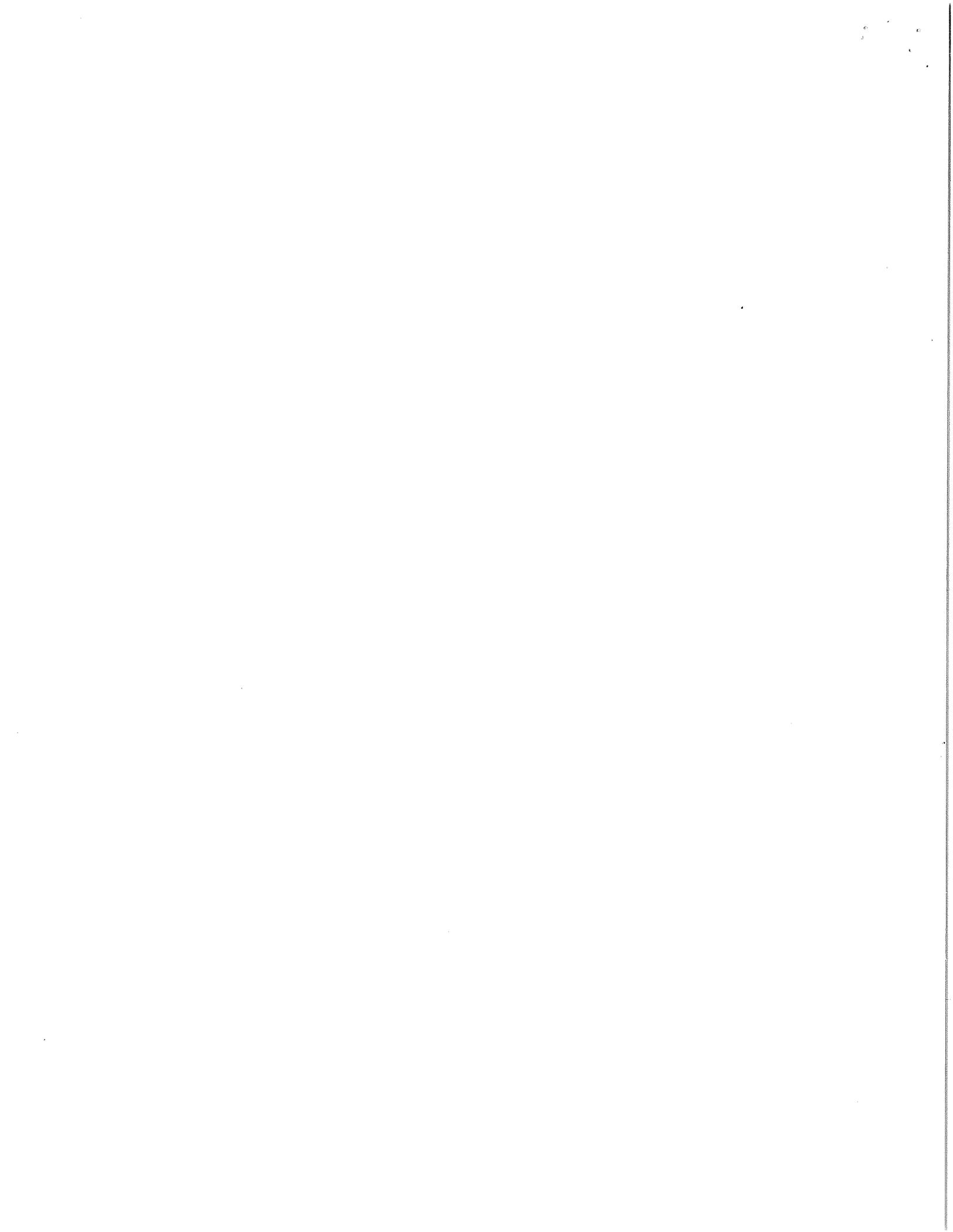
10.10. *Number and Gender.* The singular and plural number and masculine, feminine, and neuter gender shall each include the other when the context requires.

IN WITNESS WHEREOF, the undersigned, being the Declarant, has executed this Declaration on this __ day of _____, 201_, at _____, California.

MARGARITA RANCH SLO, LLC
A California limited liability company

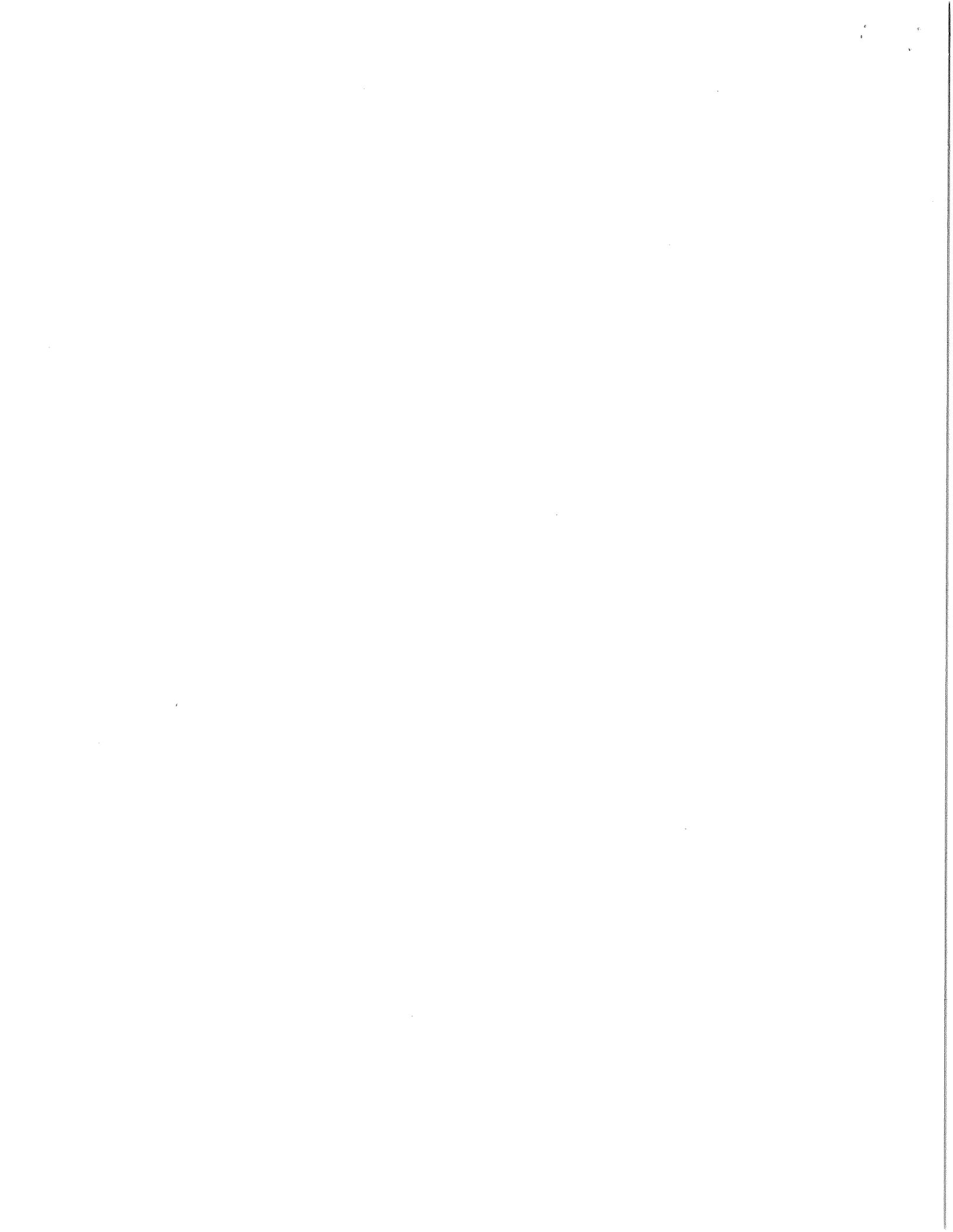
By: _____
Name: Dennis A. Moresco
Title: Vice President

[NOTARY ACKNOWLEDGEMENTS ATTACHED.]



BYLAWS

TOSCANO HOMEOWNER'S ASSOCIATION
a California Nonprofit Mutual Benefit Corporation



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to
BYLAWS

TOSCANO HOMEOWNER'S ASSOCIATION
a California Nonprofit Mutual Benefit Corporation

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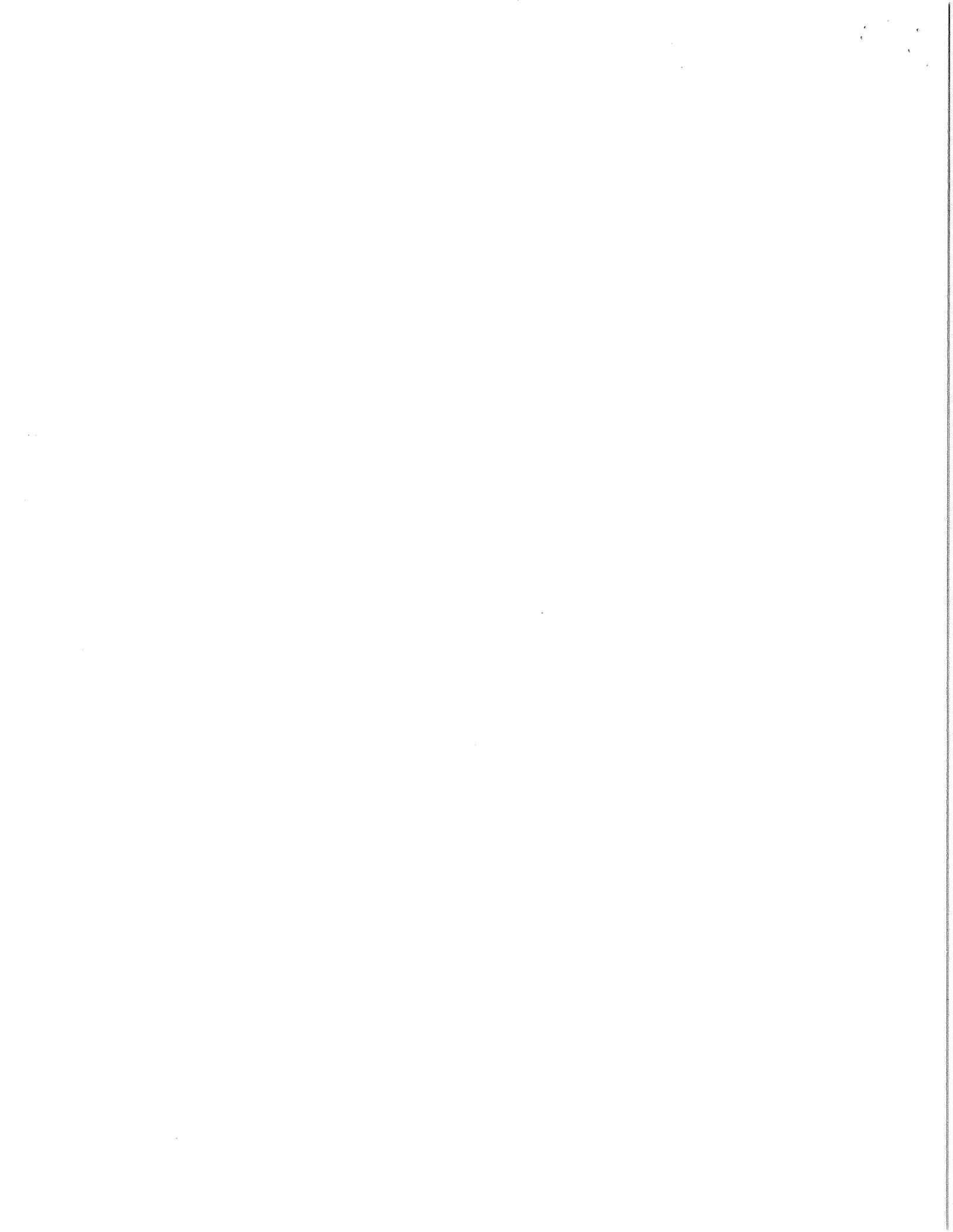
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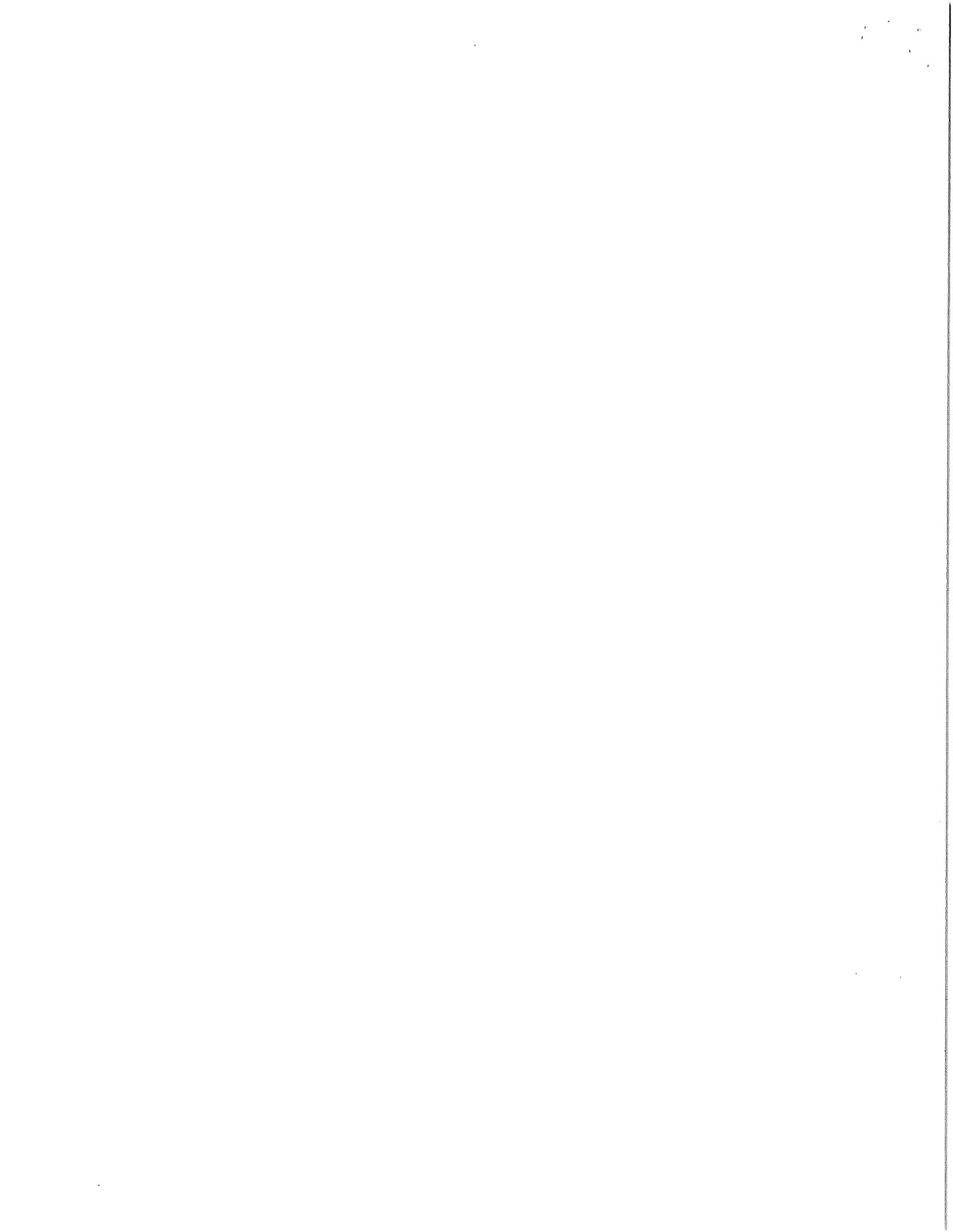
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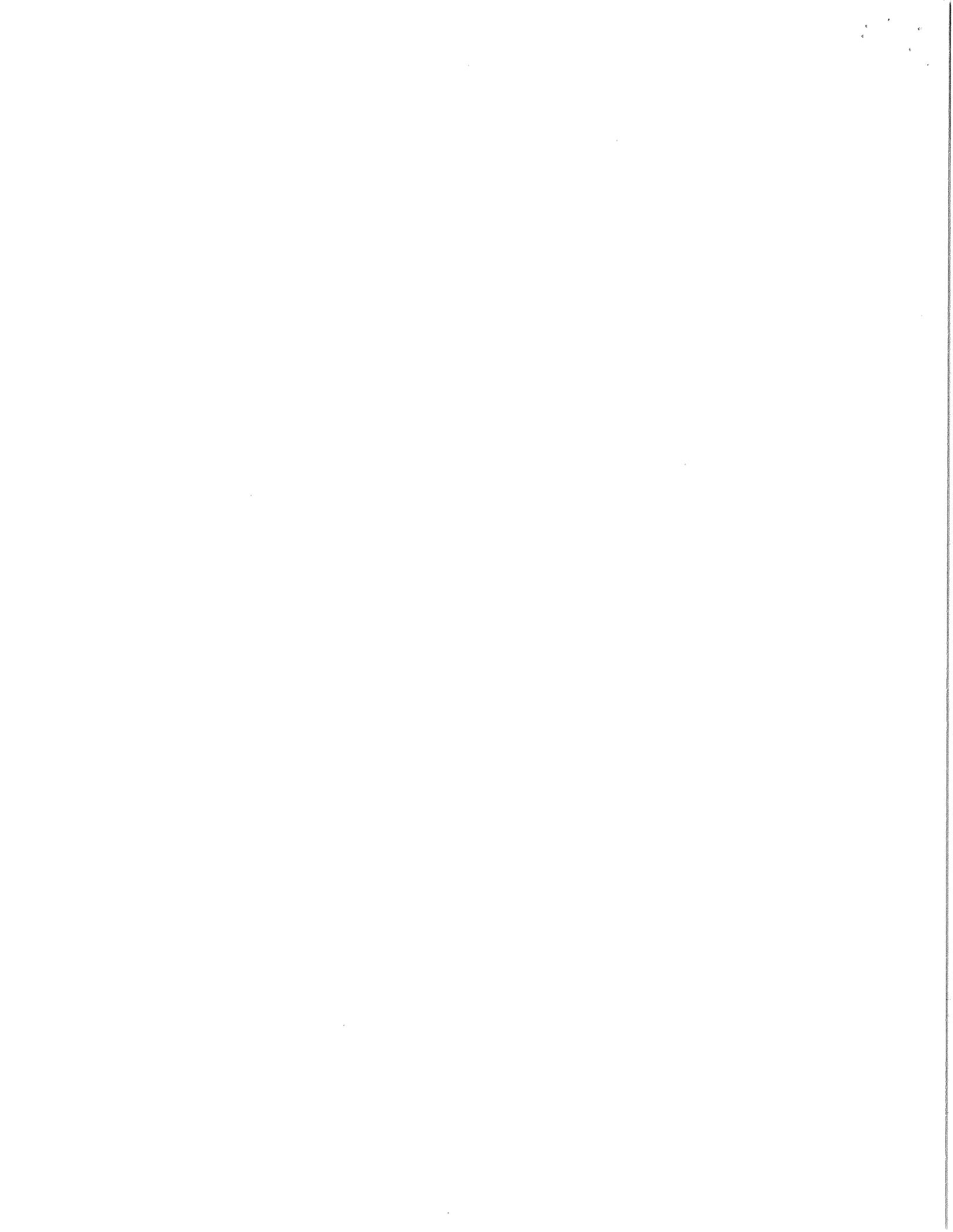
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ARTICLE I

NAME AND LOCATION

1.1. *Name and Location.* The name of the organization is TOSCANO HOMEOWNER'S ASSOCIATION ("Association"). The principal office of the Association shall be located at the Project, or at any place designated by the Board of Directors, or as designated in the Articles of Incorporation.

ARTICLE II

DEFINITIONS

2.1. *Incorporation.* The definitions and other provisions contained in the Declaration are incorporated into these Bylaws by reference.

ARTICLE III

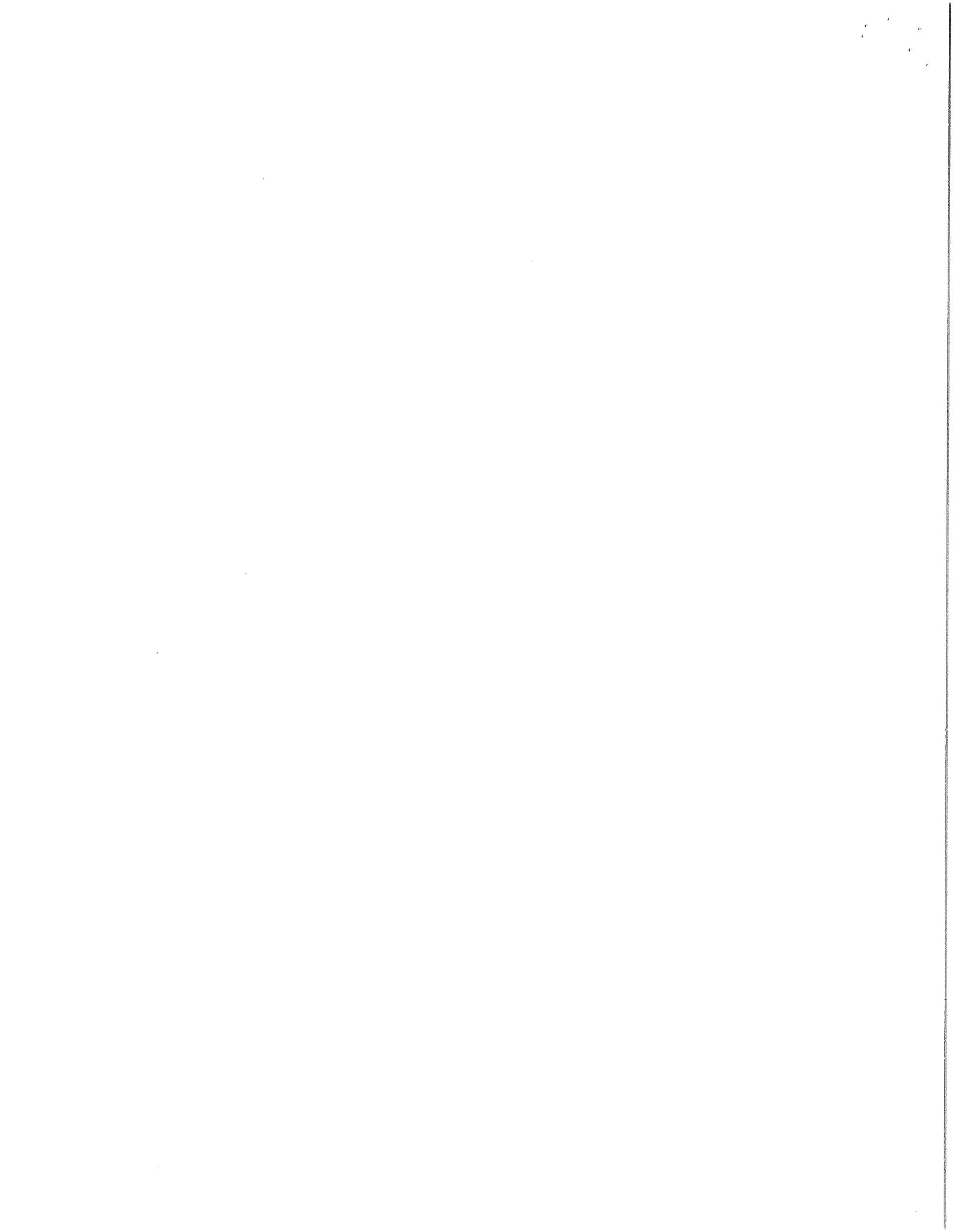
MEETING OF MEMBERS AND VOTING

3.1. *Annual Meeting.* The annual meeting shall be held in the month of January, at a time to be set by the Board of Directors. However, in no event shall the first meeting be held later than six months after the closing of the sale of the first subdivision interest without regard to the number of subdivision interests authorized for sale in the first public report.

3.2. *Special Meetings.* Special meetings of the Members shall be promptly scheduled at any time by the Board of Directors in response to the vote of a majority of the Board of Directors, or in response to a verbal request by the Chair of the Board of Directors or the President, or upon written request of the Members representing five percent (5%) of the total voting power of the Association.

3.3. *Notice and Place of Meetings.* Written notice of each meeting of the Members, annual or special, shall be given to members by the governing body by any means which is appropriate given the physical setup of the subdivision. This notice shall be given not less than ten (10) nor more than ninety (90) days before the date of any meeting at which members are required or permitted to take any action. The notice shall specify the place, day and hour of the meeting and the matters the governing body intends to present for action by the members. Except as otherwise provided by law, any proper matter may be presented at the meeting for action. Meetings shall be held within the Project or at a meeting place within the City of Pismo Beach as close to the Project as possible.

3.4. *Quorum.* The presence either in person or by proxy, at any meeting, of Members entitled to cast forty percent (40%) of the total voting power of the Association (excluding the number of votes as to which voting rights are suspended at the time of the subject meeting) shall constitute a quorum for any action except as otherwise provided in the Declaration or Bylaws.

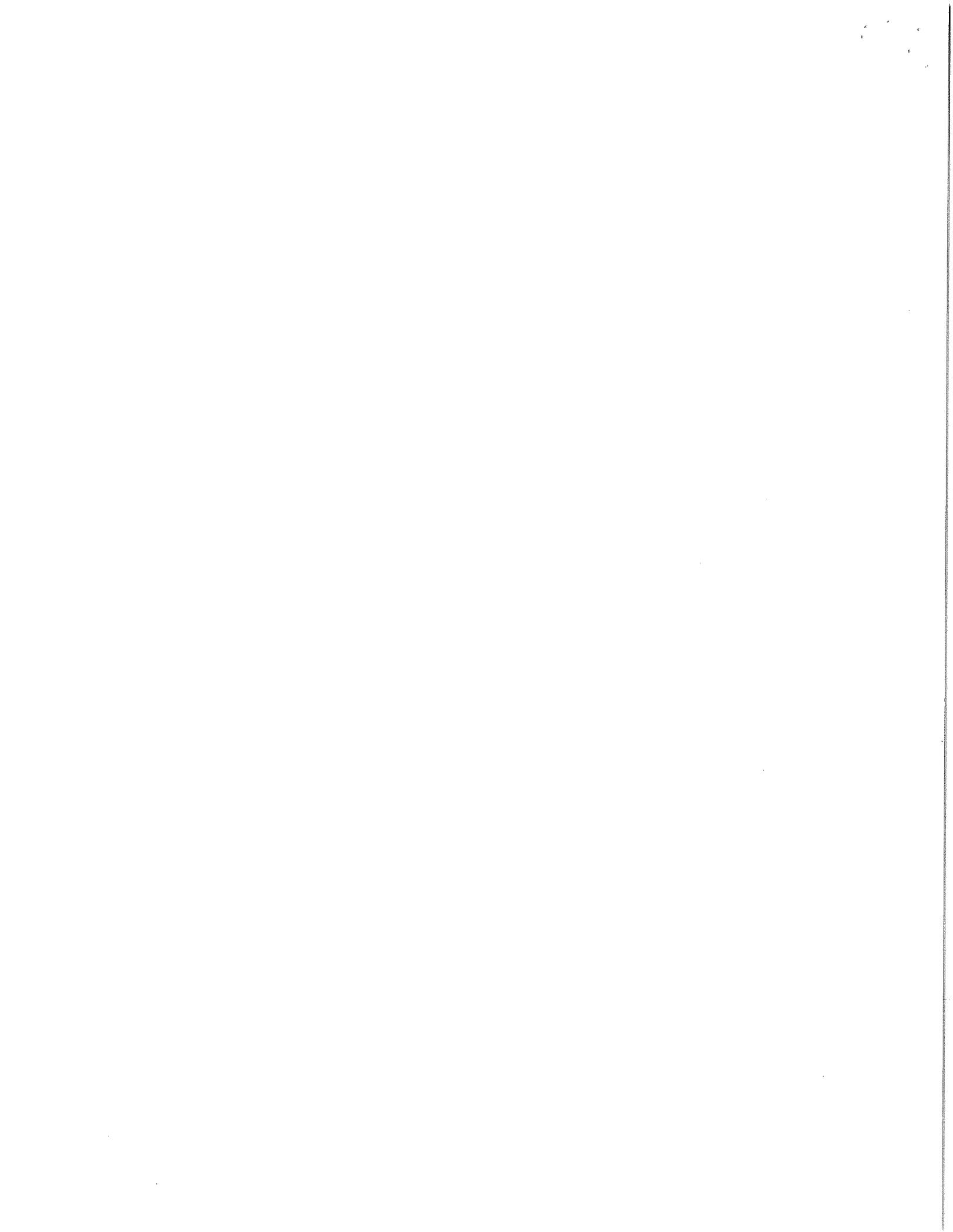


A. In the absence of a quorum at a members' meeting, a majority of those present in person or by proxy may adjourn the meeting to another time, but may not transact any other business. An adjournment for lack of a quorum by those in attendance shall be to a date not less than five (5) days and not more than thirty (30) days from the original meeting date. The quorum for an adjourned meeting may be set by the governing instruments at a percentage less than that prescribed for the regular meeting, but it shall not less than at least twenty-five percent (25%) of the total voting power of the Association. If a time and place for the adjourned meeting is not fixed by those in attendance at the original meeting or if for any reason a new date is fixed for the adjourned meeting after adjournment, notice of the time and place of the adjourned meeting shall be given to members in the manner prescribed for regular meetings.

B. The Members at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum, provided that not less than at least twenty-five percent (25%) of the total voting power of the Association remains present in person or by proxy, and provided further than any action taken shall be approved by a majority of the Members required to constitute a quorum, and that only matters that may be voted upon at said adjourned meeting are matters the general nature of which was noticed not less than ten (10) days nor more than ninety (90) days before the date of the meeting to each Member entitled to vote at the original meeting. If the time and place of the adjourned meeting shall is not fixed by those in attendance at the original meeting or if for any reason a new date is fixed for the adjourned meeting after adjournment, written notice of the time and place of the adjourned meeting shall be given to Members in the manner prescribed for annual meetings.

C. Notwithstanding anything in these Bylaws to the contrary, for purposes of obtaining membership approval of special Assessments or increase in annual Assessments, a "quorum" means more than fifty percent (50%) of the Members of the Association.

3.5. *Proxies.* At all meetings of Members, each Member may vote in person or by proxy. All proxies shall be in writing, signed by the Member, and filed with the Secretary before the appointed time of each meeting. Every proxy shall be revocable and shall automatically cease upon conveyance by the Member of that Member's Lot, or upon receipt by the Secretary of the Board of Directors of written notice of the death or judicially declared incompetence of a Member prior to the counting of the vote, or upon expiration of one year from the date of the proxy. Any form of proxy distributed by any person to the membership of the Association shall afford the opportunity to specify a choice between approval or disapproval of each matter or group of matters to be acted upon, except it shall not be mandatory that a candidate for election to the Board of Directors be named on the proxy ballot. The proxy shall provide that, when the Member specifies a choice, the vote shall be cast in accordance with that choice. The proxy also shall identify the person or persons authorized to exercise the proxy and the length of time it will be valid. In addition, voting by proxy shall comply with any other applicable requirements of California Corporations Code sections 7514 and 7613.



3.6. *Membership and Voting.* The Association shall have two classes of voting membership. Each owner of a subdivision interest other than the Subdivider is a Class A member. The Subdivider is a Class B member.

A. When more than one person holds an interest in any Lot, all those persons shall be Members. The vote for that Lot shall be exercised as they among themselves determine, but in no event shall more than a percentage of apportionment of assessment share be cast with respect to any Lot, nor shall multiple Owners of a Lot split the percentage of apportionment of assessment share.

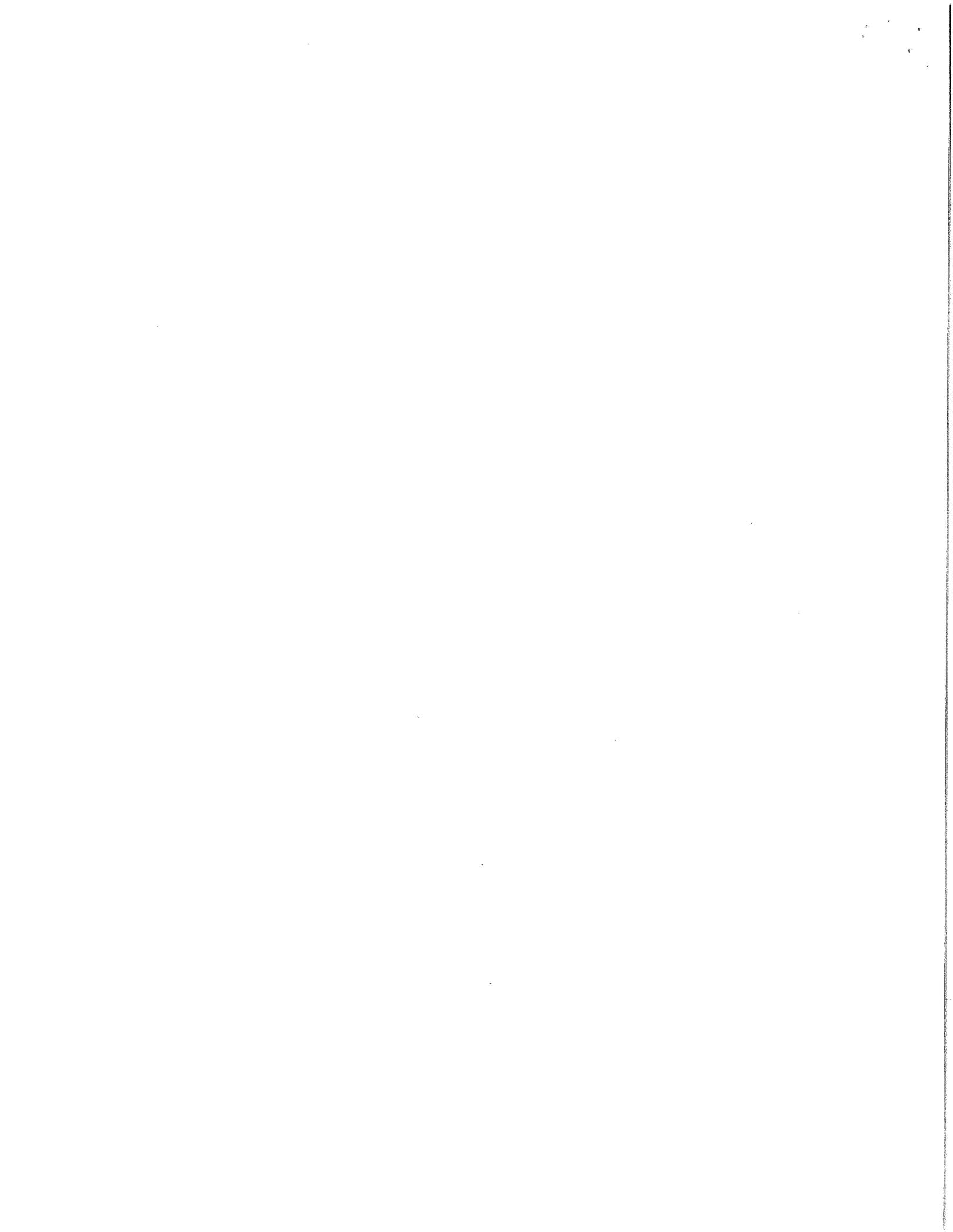
B. Any action by the Association that must have the approval of the Members before being undertaken shall require the vote of a majority of a quorum of the membership, or written assent of a majority of the membership. The vote or written assent of a prescribed majority of the voting power of the Members of the Association other than the subdivider is required for the approval of any action for which a regulation of the California Bureau of Real Estate, other than section 2792.4, requires the approval of a prescribed majority of the voting power of the Members other than the subdivider.

3.7. *Eligibility to Vote.* Only Members in good standing shall be entitled to vote on any issue or matter presented to the Members for approval. In order to be in good standing, a Member must be current in the payment of all Assessments levied against the Member's Lot and not subject to any suspension of voting privileges as a result of any disciplinary proceeding conducted in accordance with the Declaration. A Member's good standing shall be determined as of the record date established in accordance with paragraph 3.8 of these Bylaws. A Member shall maintain good standing if his or her standing has not been suspended by the provisions of these Bylaws and the Member has maintained a current filing with the Association of the following: (1) the signature or signatures of the Owners authorized to vote on behalf of the Member's Lot; and (2) the address to which all notices shall be sent; or alternatively, (3) a proxy that names the Owner's representative and lists that representative's address.

3.8. *Record Dates.*

A. *Record Dates Established by the Board of Directors.* For the purpose of determining which Members are entitled to receive notice of any meeting, to vote, to act by written ballot without a meeting, or to exercise any rights with respect to any other lawful action, the Board of Directors may fix, in advance, a "record date" and provide that only Members of record on the date so fixed are entitled to receive notice, to vote at a meeting, 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, except as otherwise provided in the Articles, by agreement, or the California Nonprofit Mutual Benefit Corporation Law. The record dates established by the Board of Directors pursuant to this paragraph shall be as follows:

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



(2) *Record Date for Voting.* For determining those Members entitled to vote at a meeting, the record date shall be no more than sixty (60) days but no less than one (1) day before the date of the meeting;

(3) *Record Date for Action by Written Ballot without Meeting.* For determining Members entitled to cast written ballots, the record date shall be no more than sixty (60) days but no less than one (1) day before the day on which the first written ballot is mailed or solicited; and

(4) *Record Date for Other Lawful Action.* For determining Members entitled to exercise any rights with respect to other lawful action, the record date shall be no more than sixty (60) days but no less than one (1) day prior to the date of the other action.

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

(1) *Record Date for Notice of Meetings.* The record date for determining those Members entitled to receive notice of a meeting of Members shall be the business day preceding the day on which notice is given.

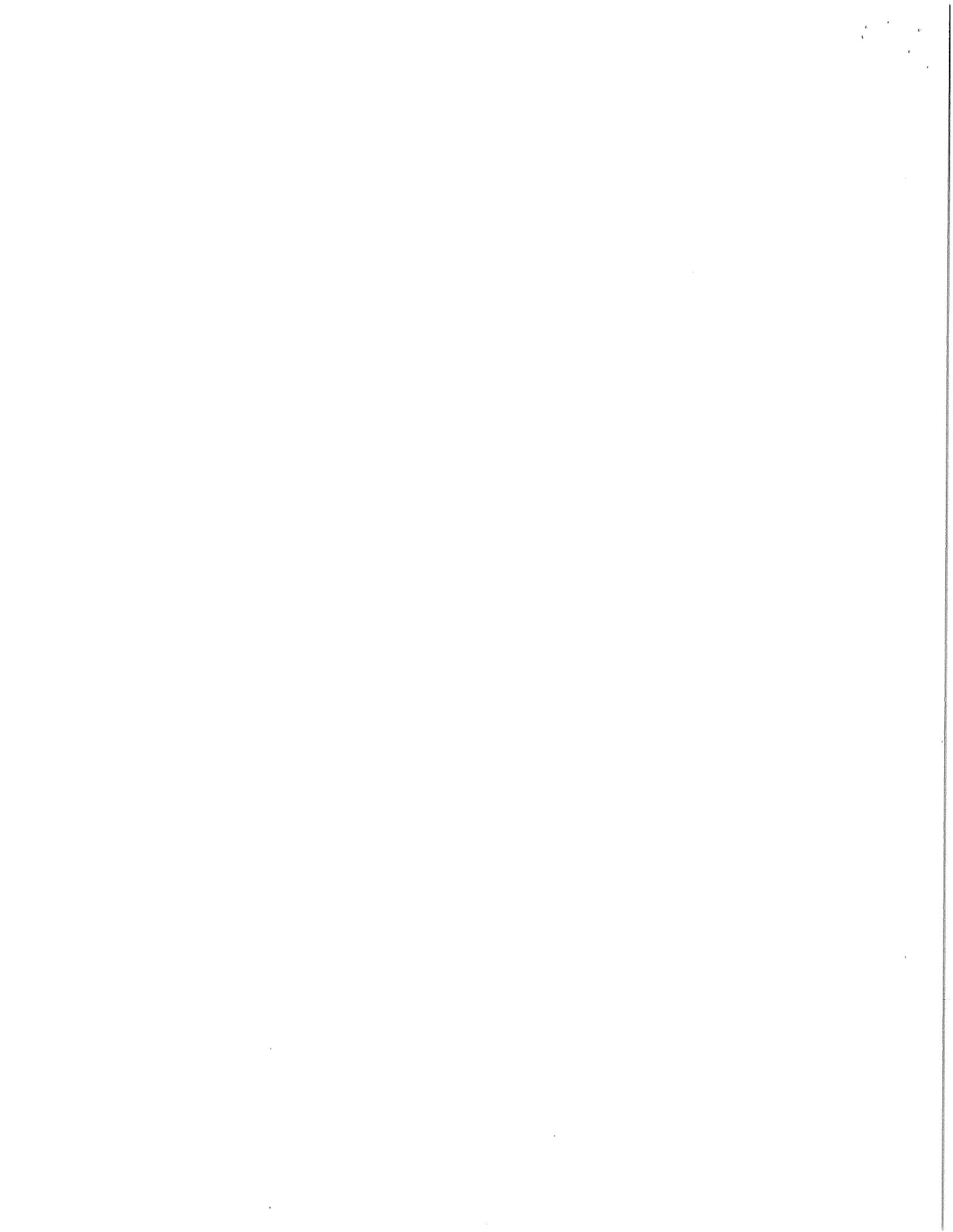
(2) *Record Date for Voting.* The record date for determining those Members entitled to vote at a meeting of Members shall be the day of the meeting, or in the case of an adjourned meeting, the date of the adjourned meeting.

(3) *Record Date for Action by Written Ballot without Meeting.* The record date for determining those Members entitled to vote by written ballot on proposed Association actions without a meeting, when no prior action by the Board of Directors has been taken, shall be the day on which the first written ballot is mailed or solicited. When prior action of the Board of Directors has been taken, it shall be the day on which the Board of Directors 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 the day thirty (30) days prior to the date of that action.

(5) *"Record Date" Means as of Close of Business.* For purposes 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.

3.9. *Action without Meeting.* Any action that may be taken at annual or special meeting of Members (except the election of Directors) may be taken without a meeting in accordance with the provisions of California Corporations Code section 7513. Any form of written ballot distributed by any person to the membership of the Association shall afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted



upon, except it shall not be mandatory that a candidate for election to the Board of Directors be named in the written ballot. The written ballot shall provide that, when the Member specifies a choice, the vote shall be cast in accordance with that choice.

3.10. *Conduct of Meetings.* Meetings of the membership of the Association shall be conducted in accordance with the provisions of California Civil Code section 5000(a). Notwithstanding any other provision of law, notice of meetings of the Members shall specify those matters the Board of Directors intends to present for action by the Members, but, except as otherwise provided by law, any proper matter may be presented at the meeting for action. Members of the Association shall have access to Association records in accordance with California Corporations Code section 8330 *et seq.* Any Member shall be permitted to speak at a meeting of the Association Members; however, the Board of Directors may establish a reasonable time limit for Members to speak before a meeting of the Association Members.

ARTICLE IV

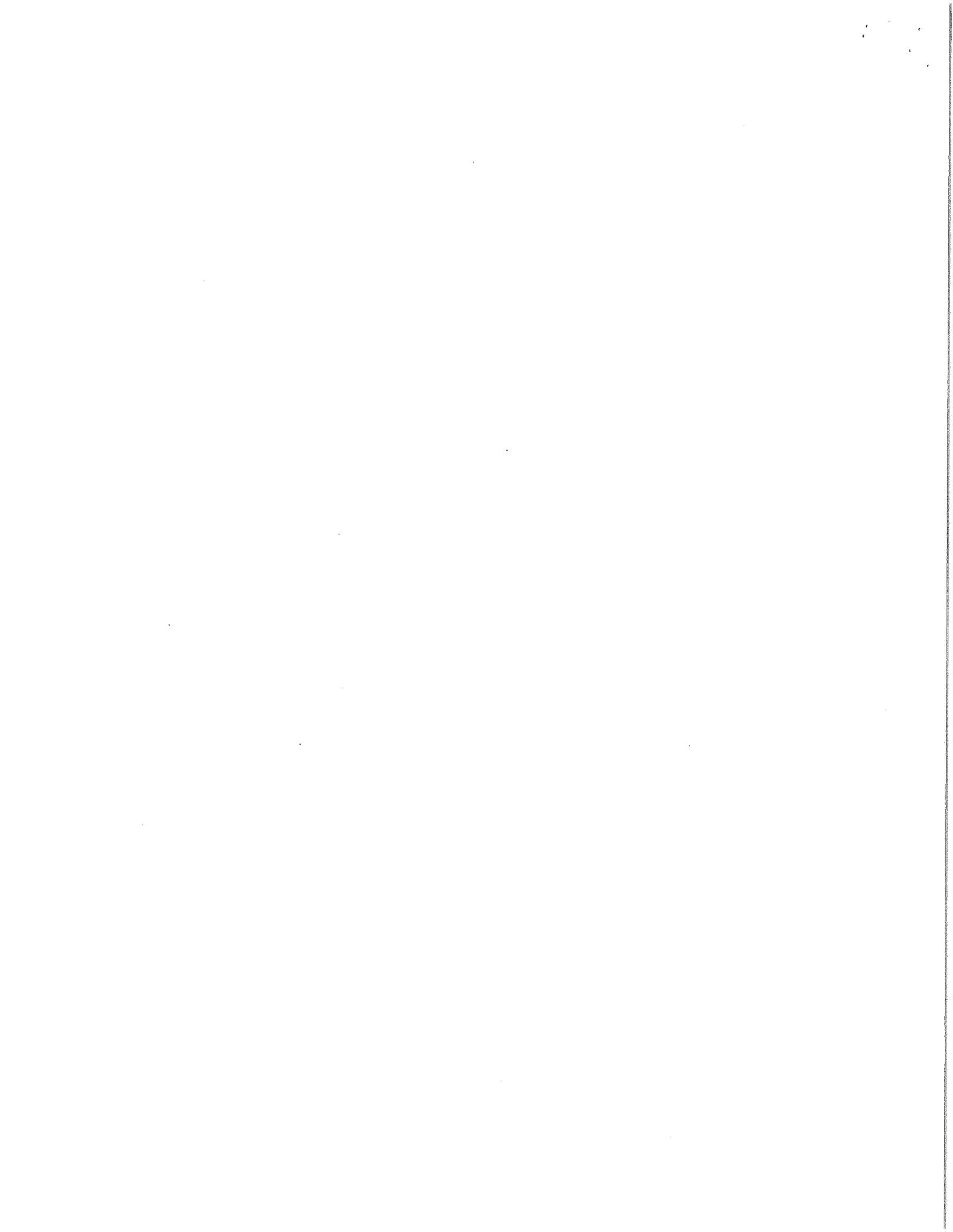
BOARD OF DIRECTORS

4.1. *In General.* The activities and affairs of this Association shall be administered and overseen by, and the powers of the Association exercised under the direction of, a Board of Directors. The Board of Directors may delegate the management activities to any management company or managing agent, provided, however, that the activities and affairs of the Association shall be directed, overseen, and managed, and the Association powers exercised, under the ultimate direction of the Board of Directors.

4.2. *Number.* The affairs of this Association shall be managed by a Board of Directors of three directors, all of whom must be Members of the Association, or an officer, director, employee, or agent of a Member.

4.3. *Term of Office.* The Members shall elect two (2) directors for a term of two (2) years and one (1) director for a term of one (1) years, as these terms expire the Members shall elect director(s) for a term of two (2) years. Each director, unless he or she vacates his or her office sooner, shall hold office until his/her term expires and a successor is elected.

4.4. *Removal; Vacancies.* Unless the entire Board of Directors is removed from office by the vote of Association Members, an individual director shall not be removed prior to the expiration of that director's term of office if the votes cast against that director's removal would be sufficient to elect that director if voted at an election which the same total number of votes were cast and the entire number of directors authorized at the time of the most recent election of directors were then being elected. A director who was elected solely by the votes of Members other than the subdivider may only be removed from office prior to the expiration of that director's term only by the votes of a majority of Members other than the subdivider. In the event of death or resignation of a director, the vacancy shall be filled by approval of the Board of Directors at a duly held meeting, or by the sole remaining director. The Members may elect a



director at any time to fill any vacancy not filled by the directors. A vacancy created by removal of a director can be filled only by election of the Members.

4.5. *Compensation.* No director shall receive compensation for any service rendered to the Association. However, any director may be reimbursed for those actual expenses, if reasonable, that are incurred in the performance of the director's duties.

4.6. *Indemnification.* The Association shall indemnify any present or former director, officer, employee, or other agent of the Association to the fullest extent authorized under California Corporations Code section 7237, or any successor statute, and may advance to any of those persons funds to pay expenses that may be incurred in defending any action or proceeding on receipt of an undertaking by or on behalf of that person or repay those funds unless it is ultimately determined that the person was entitled to indemnification under this provision.

ARTICLE V

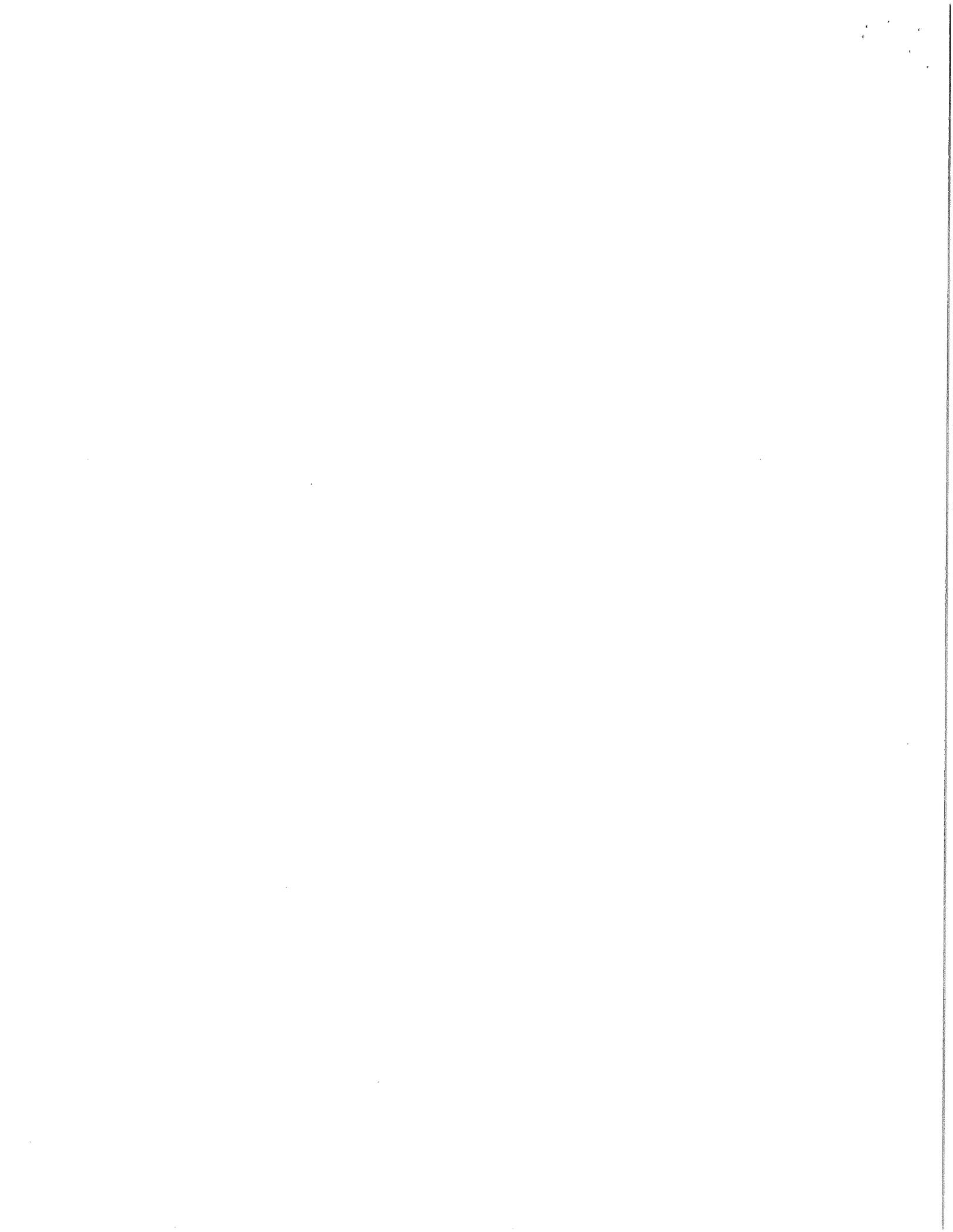
NOMINATION AND ELECTION OF DIRECTORS

5.1. *Nomination.* Nomination for election to the Board of Directors shall be made by a Nominating Committee. Notice to the Members of the annual meeting during which the election is to occur shall include the names of all those who are nominees at the time the notice is sent. Nominations may also be made from the floor of at the annual meeting. The Nominating Committee shall consist of a Chair, who shall be a member of the Board of Directors, and two or more Members of the Association. The Nominating Committee shall be appointed by the Board of Directors not less than thirty (30) days prior to each annual meeting of the Members, to serve until the close of that annual meeting. The Nominating Committee shall make as many nominations for election to the Board of Directors as it shall in its discretion determine, but not less than the number of vacancies that are to be filled. All candidates shall have reasonable opportunity to communicate their qualification to Members and to solicit votes.

5.2. *Election.* Voting for the Board of Directors shall be by secret written ballot. The person(s) receiving the largest number of votes shall be elected. The term of office of each director elected to fill a vacancy created by the resignation, death, or removal of his or her predecessor shall be the balance of the unfinished term of his or her predecessor. Any person serving as a director may be re-elected, and there shall be no limitation on the number of terms during which he may serve.

A. The first election of a governing body for the Association shall be conducted at the first meeting of the Association. All members of the Board of Directors shall be elected at that election.

B. Cumulative voting in the election of governing body members shall be used in all elections in which more than two positions on the Board of Directors are to be filled subject to the procedural prerequisites to cumulative voting prescribed in California Corporations Code section 7615(b) of the Corporations Code.



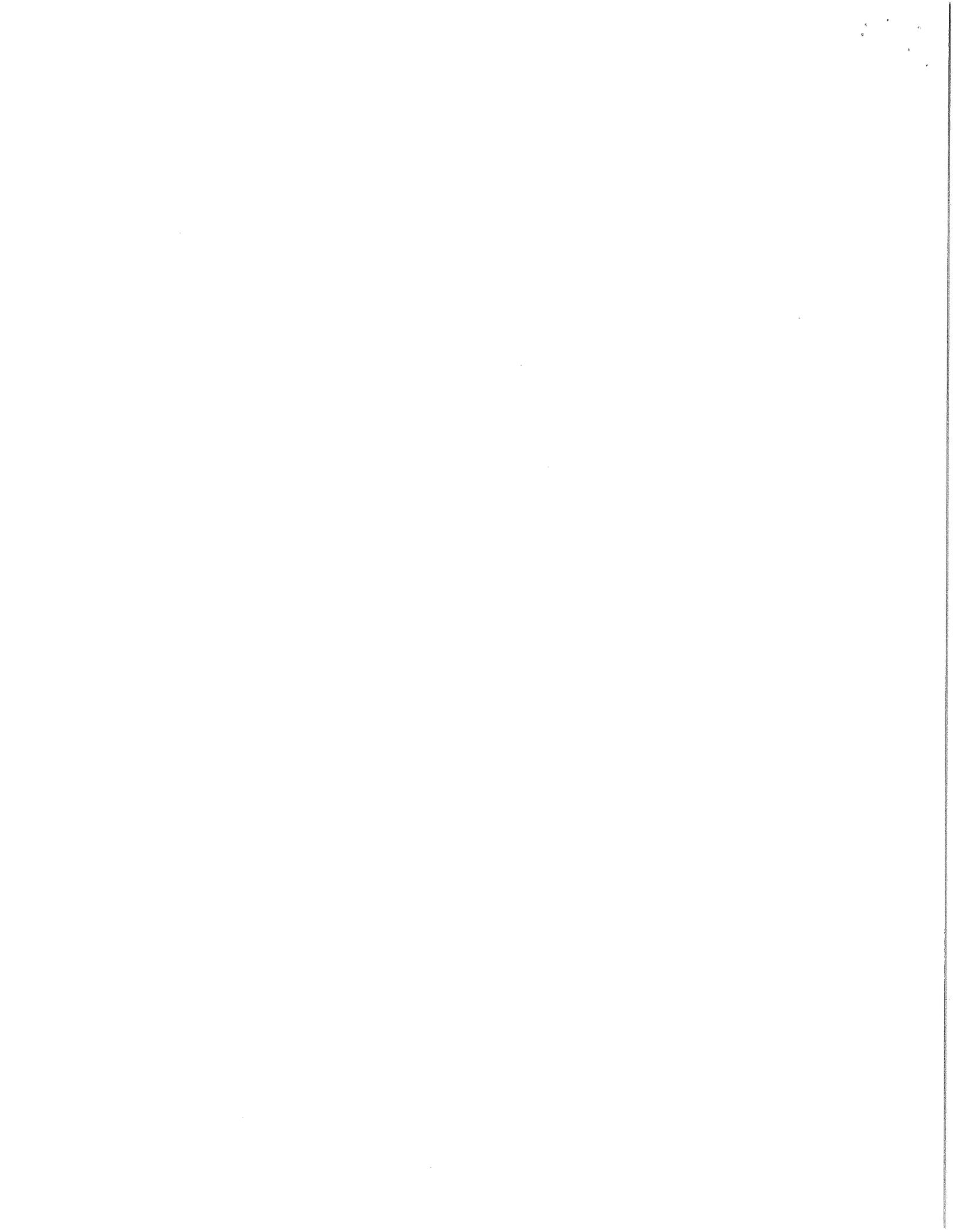
C. So long as a majority of the voting power of the Association resides in the subdivider, not less than twenty percent (20%) of the incumbents on the Board of Directors shall have been elected solely by the votes of Owners other than the subdivider.

ARTICLE VI

MEETING OF DIRECTORS

6.1. *Regular Meetings.* Regular meetings of the Board of Directors shall be held twice a year at any place within the Project, and commencing at any hour, as may be fixed from time to time by resolution of the Board of Directors. If a larger room than exists within the Project is required, the Board of Directors shall select a room as close as possible to the Project. Should a regularly scheduled meeting fall upon a legal holiday, then that meeting shall be held at the same time on the next day that is not a legal holiday, excluding Saturday and Sunday. Notice of the time and place of a regular meeting shall be posted at a prominent place or places within the common area and shall be communicated to governing body members not less than four (4) days prior to the meeting unless the time and place of meeting is fixed by the Bylaws provided, however that notice of a meeting need not be given to any governing body member who has signed a waiver of notice or a written consent to holding of the meeting. If the common area consists only of an easement or is otherwise unsuitable for posting of such notice, the governing body shall communicate the notice of the time and place of such meeting by any means it deems appropriate. Notice of any meeting need not be given to any director who has signed a waiver of notice or a written consent to holding of the meeting. The meeting shall be governed by the provisions of California Civil Code section 4900 *et seq.*

6.2. *Special Meetings.* Special meetings of the Board of Directors shall be held when called by written notice signed by the President or by any two (2) members of the Board of Directors other than the President. The notice shall specify the time and place of the meeting and the nature of any special business to be considered. The notice shall be given to each director by one (1) of the following methods: (1) by personal delivery; (2) written notice by first-class mail, postage prepaid; (3) by telephone communication, either directly to the director or to a person at the director's office who would reasonably be expected to communicate such notice promptly to the director; (4) by facsimile, or electronic mail. The notice shall be given or sent to the director's address or telephone number as shown on the records of the Association. The notice shall be posted or communicated in a manner prescribed for notice of regular meetings and shall be sent to all directors not less than seventy-two (72) hours prior to the scheduled time of the meeting provided, however, that notice of the meeting need not be given to any Director who signed a waiver of notice or a written consent to holding of the meeting. All Members shall be given notice of the time and place of a special meeting, except for an emergency meeting, at least four (4) days prior to the meeting. Notice may be given by mail, by delivery of the notice to each Lot or by newsletter or similar means of communication personally delivered to each Lot. Notices sent by first-class mail shall be deposited into a United States mailbox at least six (6) days before the time set for the meeting. The meeting shall be governed by the provisions of California Civil Code section 4900 *et seq.*



6.3. *Emergency Meetings.* An emergency meeting of the Board of Directors may be called by the President, or by any two (2) directors other than the President, if there are circumstances that could not have been reasonably foreseen that require immediate attention and possible action by the Board of Directors, and that of necessity make it impracticable to provide notices required by paragraph 6.1 of these Bylaws. Prior notice to Members of an emergency meeting is not required.

6.4. *Quorum.* A majority of the directors then in office (but not less than two) shall constitute a quorum for the transaction of business. Every act performed or decision made by a majority of the directors at a duly held meeting at which a quorum is present shall be regarded as the act of the Board of Directors. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of directors, provided at least two (2) directors are present if any action taken is approved by a majority of the required quorum for that meeting.

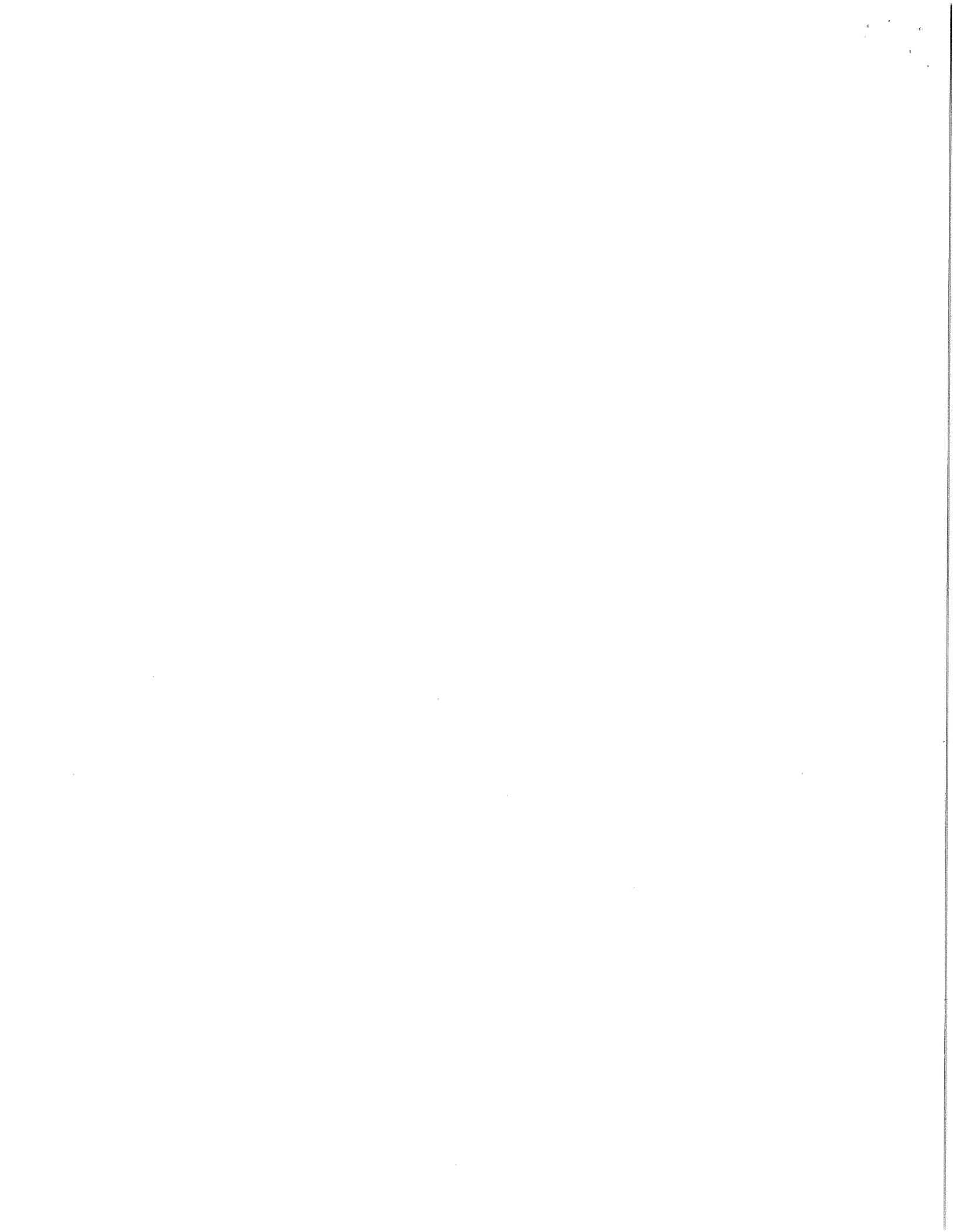
6.5. *Open Meetings.* Except as provided in paragraphs 6.6 and 6.7 of these Bylaws, all meetings of the Board of Directors shall be open to all Members. The Board of Directors shall establish a reasonable time limit for Members of the Association to speak to the Board of Directors at any meeting of the Board of Directors, and must allow any Member of the Association to speak at any meeting of the Board of Directors within that time limit.

6.6. *Executive Session.* The Board of Directors may, with approval of a majority of its members present at a meeting in which a quorum for the transaction of business has been established, or, if all members of the governing body are present, by a majority vote of the members, adjourn a meeting and reconvene in executive session to discuss and vote upon litigation, matters relating to the formation of contracts with third parties, Member discipline, or personal matters. Any matter discussed in executive session shall be generally noted in the minutes of the immediately following meeting that is open to the entire membership. The Board of Directors shall meet in executive session if requested by a Member who may be subject to a fine, a penalty, or other form of discipline, and the Member affected shall be entitled to attend the executive session. The Board of Directors may hold an executive session emergency meeting if circumstances require, as authorized by paragraph 6.3 of these Bylaws.

6.7. *Telephonic/Electronic Meetings.* Any meeting, regular or special, may be held by conference telephone, electronic video screen, or other communication equipment, as long as all of the following apply:

A. Each director participating in the meeting can communicate with all the other directors concurrently;

B. Each director is provided the means of participating in all matters before the Board of Directors, including, without limitation, the capacity to propose, or to interpose, an objection to a specific action to be taken by the Association;



C. The Board of Directors adopts and implements some means of verifying both of the following:

(1) A person participating in the meeting is a director or other person entitled to participate in the Board of Directors meeting,

(2) All actions of, or votes by, the Board of Directors are taken or cast only by the directors and not by persons who are not directors; and

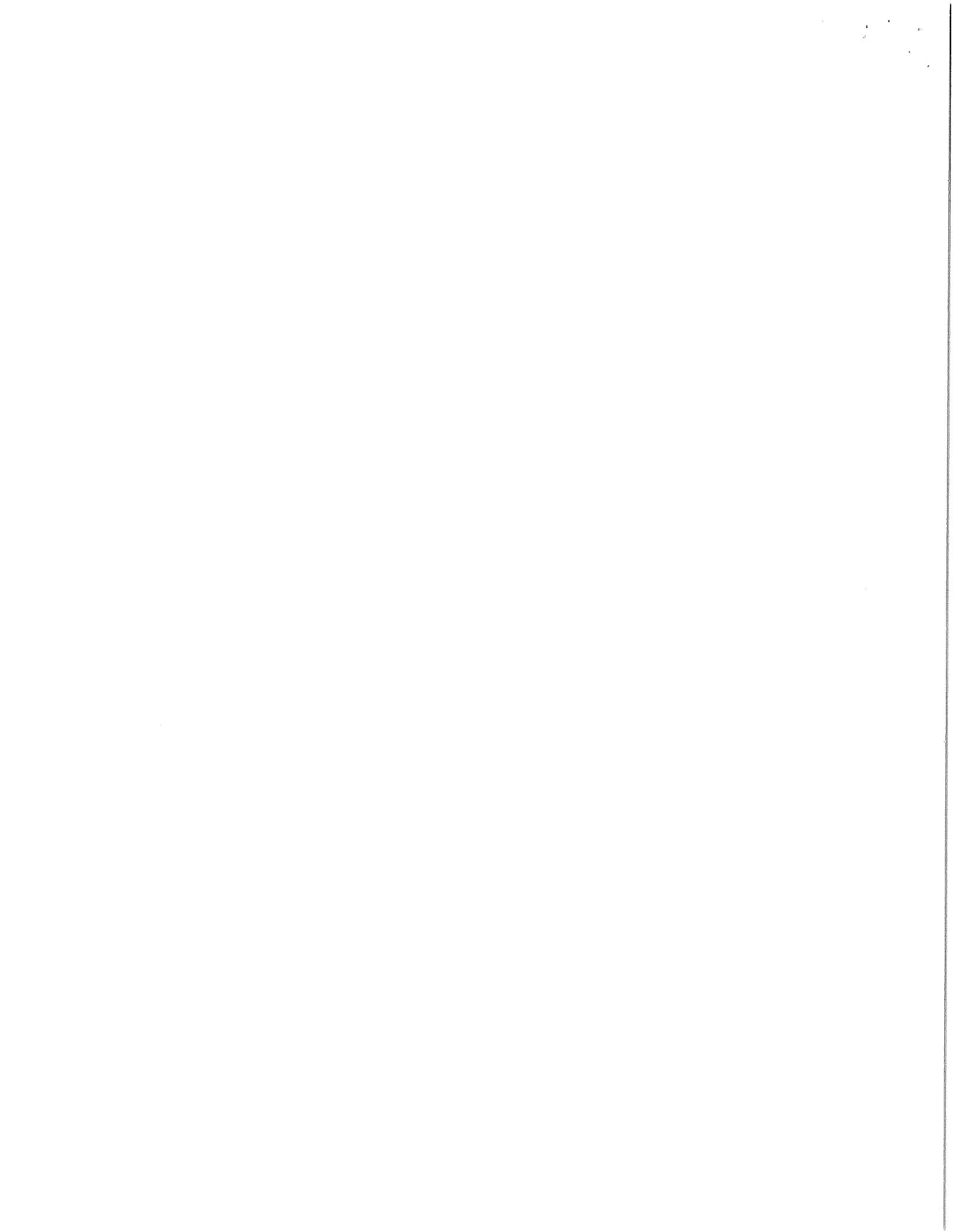
D. Arrangements shall be made to enable any Member who so desires to listen to the telephone/electronic meeting of the Board of Directors at the Member's cost. The minutes of the meeting shall state that those participating in the meeting were recognized to be directors or other persons authorized to participate in the meeting. An explanation of the action taken by the Board of Directors shall be communicated by any means it deems appropriate.

6.8. *Waiver of Notice.* The transactions of any meeting of the Board of Directors, however called and noticed or wherever held, shall be as valid as though taken at a meeting duly held after regular call and notice, if (1) a quorum is present and (2) either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes. The waiver of notice or consent need not specify the purpose of the meeting. Notice of a meeting shall also be deemed given to any directors who attends the meeting without protesting before or at its commencement about the lack of adequate notice.

6.9. *Notice of Adjourned Meeting.* Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four (24) hours, in which case personal notice of the time and place shall be given before the time of the adjourned meeting to the directors who were not present at the time of the adjournment, and shall be communicated by the Board of Directors by any means it deems appropriate.

6.10. *Action without Meeting.* Any action required or permitted to be taken by the Board of Directors may be taken without a meeting (and without prior notice to Members as provided in paragraph 6.2 of these Bylaws), if all members of the Board of Directors, individually or collectively, consent in writing to that action. Action by written consent shall have the same force and effect as a unanimous vote of the Board of Directors. Written consent or consents shall be filed with the minutes of the proceedings of the Board of Directors. An explanation of the action taken shall be posted at a prominent place or places within the common area within three (3) days after the written consents of all governing body members have been obtained. If the common area consists only of an easement or is otherwise unsuitable for posting the explanation of the action taken, the governing body shall communicate said explanation by any means it deems appropriate.

6.11. *Definition of Meeting.* "Meeting" includes any congregation of a majority of the directors at the same time and place to hear, discuss, or deliberate upon any item of business scheduled to be heard by the Board of Directors, except those matters that may be discussed in executive session.



ARTICLE VII

POWERS AND DUTIES OF THE BOARD OF DIRECTORS

7.1 *Powers and Duties.* The powers and duties of the Board of Directors shall include the following:

A. Enforcement of applicable provisions of the Covenants, Conditions and Restrictions, Articles, Bylaws and other instruments for the ownership, management and control of the subdivision.

B. Payment of taxes and assessments which are, or could become, a lien on the common area or a portion thereof.

C. Contracting for casualty, liability and other insurance on behalf of the Association.

D. Contracting for goods and/or services for the common areas, facilities and interests or for the Association subject to the limitations set forth below.

E. Delegation of its powers to committees, officers or employees of the Association as expressly authorized by the governing instruments.

F. Preparation of budgets and financial statements for the Association as prescribed in the governing instruments.

G. Formulation of rules of operation of the common areas and facilities owned or controlled by the Association.

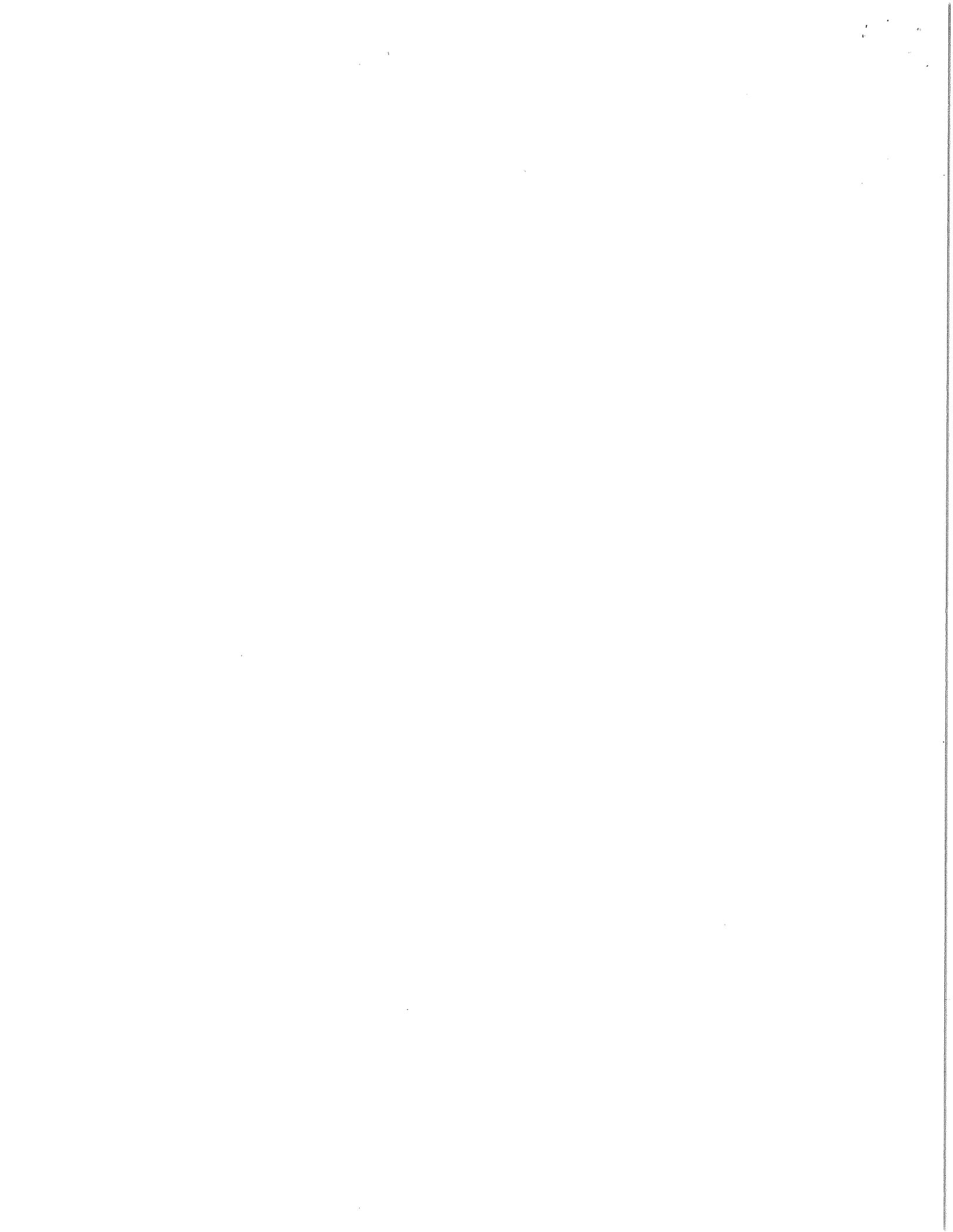
H. Initiation and execution of disciplinary proceedings against Members of the Association for violations of provisions of the governing instruments in accordance with procedures set forth in the governing instruments.

I. Entering upon any privately-owned subdivision interest as necessary in connection with construction, maintenance or emergency repair for the benefit of the Common Area or the Owners in common.

J. Election of Officers of the Board of Directors.

K. Filling of vacancies on the Board of Directors except for a vacancy created by the removal of a director.

7.2 *Prohibited Acts.* The Board of Directors shall not take any of the following actions, except with the assent, by vote at a meeting of the Association or by written ballot without a



meeting pursuant to California Corporations Code section 7513, of a simple majority of the Members, other than the subdivider, constituting a quorum consisting of more than fifty percent (50%) of the voting power of the Association residing in Members other than the subdivider:

A. Entering into a contract with a third person wherein the third person will furnish goods or services for the common area or Association for a term longer than one year with the following exceptions:

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

(2) 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 for which the supplier will contract at the regulated rate.

(3) Prepaid casualty and/or liability insurance policies of not to exceed three (3) years duration provided that the policy permits short rate cancellation by the insured.

(4) Lease agreements for laundry room fixtures and equipment of not to exceed five years duration provided that the lessor under the agreement is not an entity in which the subdivider has a direct or indirect ownership interest of ten percent (10%) or more.

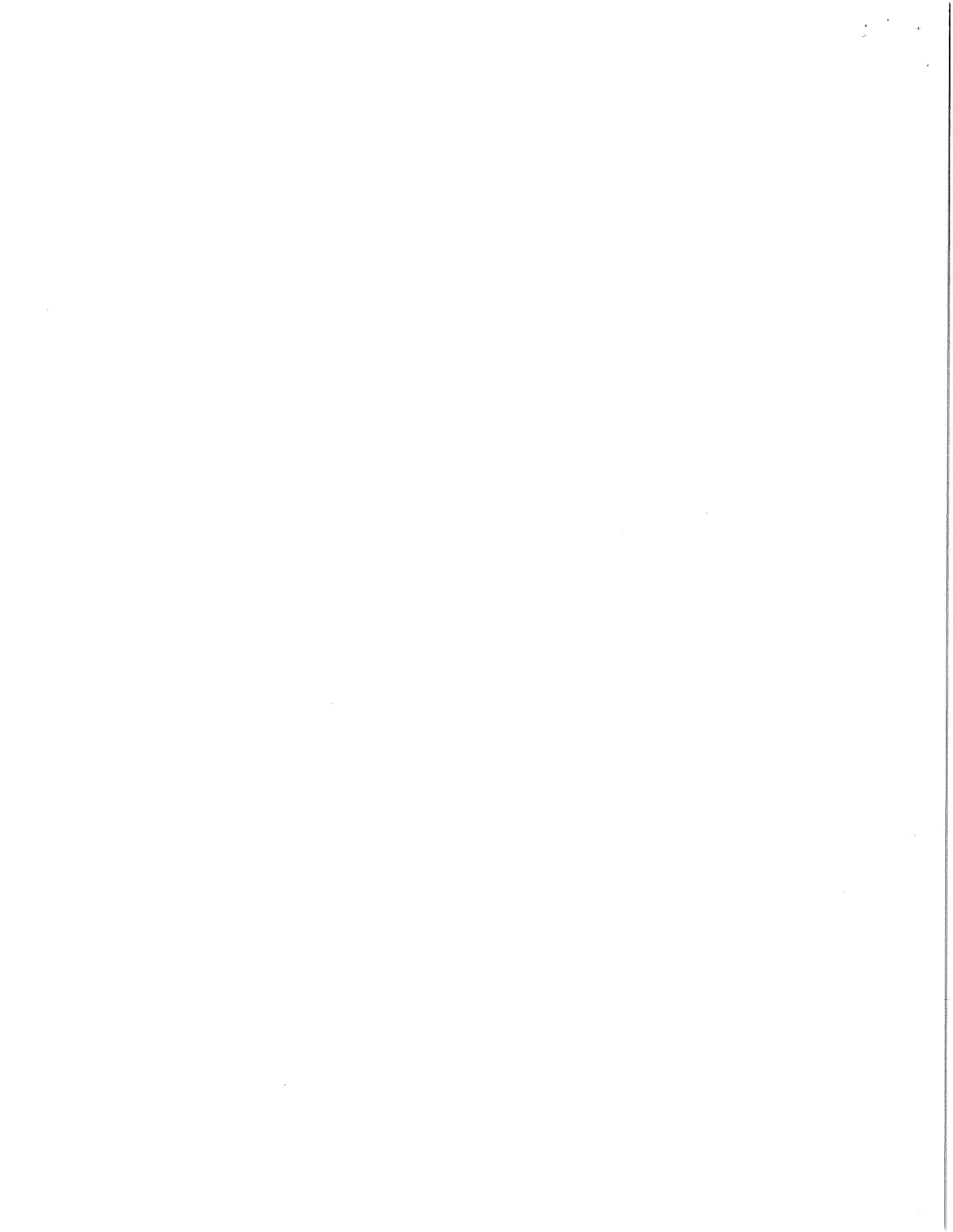
(5) Agreements for cable television services and equipment or satellite dish television services and equipment of not to exceed five years duration provided that the supplier is not an entity in which the subdivider has a direct or indirect ownership interest of ten percent (10%) or more.

(6) Agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services of not to exceed five years duration provided that the supplier or suppliers are not entities in which the subdivider has a direct or indirect ownership interest of ten percent (10%) or more.

(7) 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.

B. Expend funds designated as reserve funds for any purpose other than those purposes set forth in California Civil Code section 5510(b).

C. Incurring aggregate expenditures for capital improvements to the common area in any fiscal year in excess of five percent (5%) of the budgeted gross expenses of the Association for that fiscal year.



D. 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.

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

ARTICLE VIII

OFFICERS AND THEIR DUTIES

8.1. *Enumeration of Officers.* The officers of this Association shall be a President, Vice President, and a Secretary who shall at all times be members of the Board of Directors. The Chief Financial Officer shall be the Vice President. There may be other officers as the Board of Directors may from time to time by resolution create.

8.2. *Election of Officers.* The election of officers shall take place at the first meeting of the Board of Directors following each annual meeting of the Members.

8.3. *Term.* Each officer of this Association shall be elected annually by the Board of Directors and each shall hold office for one year unless he or she sooner resigns, becomes deceased, is removed, or is found by the Board to be unqualified to serve.

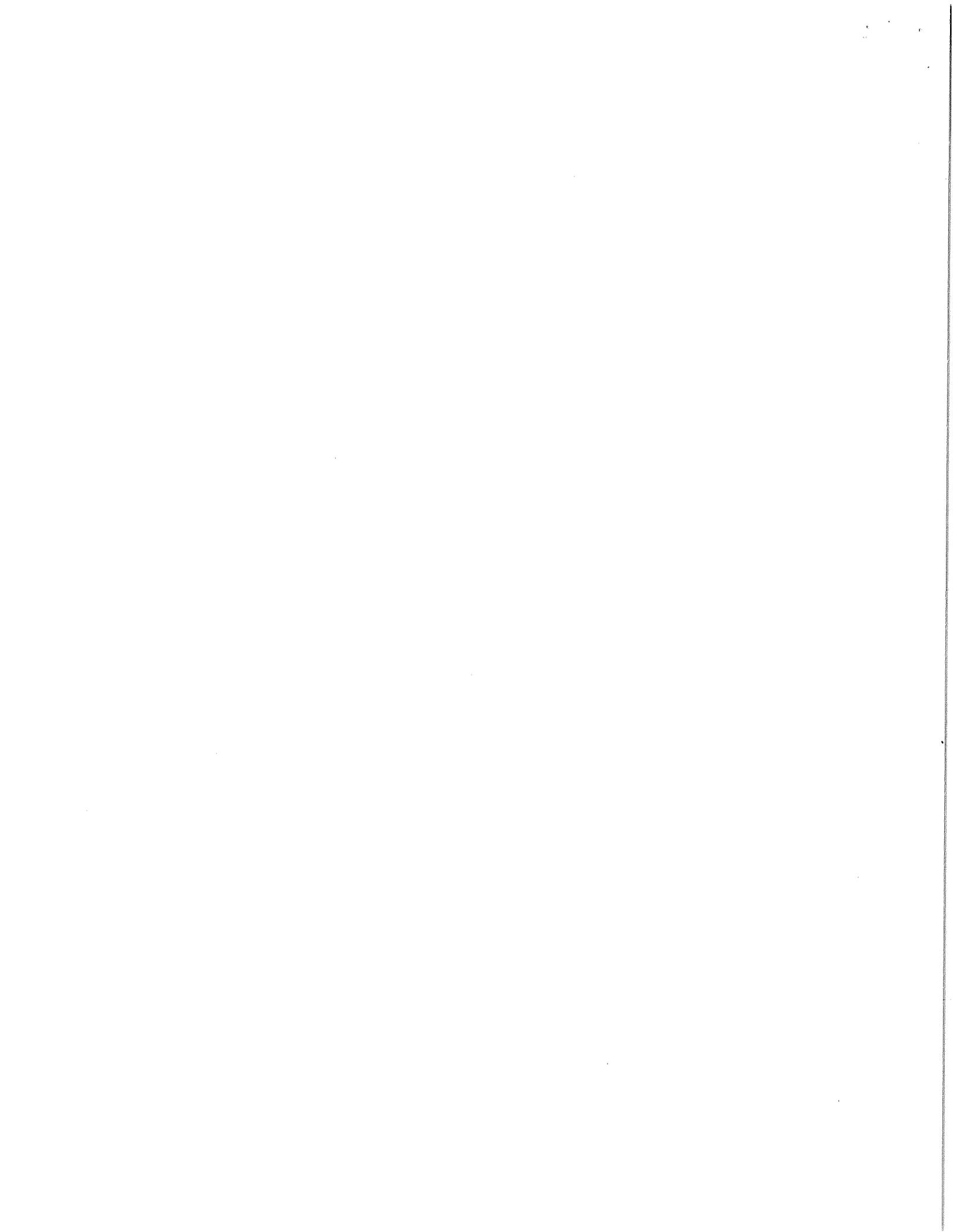
8.4. *Special Appointments.* The Board of Directors may elect other officers as the affairs of the Association may require, each of whom shall hold office for that period, have that authority, and perform those duties as the Board of Directors may, from time to time, determine.

8.5. *Resignation and Removal.* Any officer may be removed from office (but not from the Board of Directors, if the officer is also a member of the Board of Directors) by the Board of Directors with or without cause. Any officer may resign at any time by giving written notice to the Board of Directors, the President, or the Secretary. The resignation shall take effect on the date of receipt of the notice or at any later time specified in the notice, and, unless otherwise specified in the notice, acceptance of the resignation shall not be necessary to make it effective.

8.6. *Vacancies.* A vacancy in any office may be filled by appointment by the Board of Directors. The officer appointed to the vacancy shall serve the remainder of the term of the officer he/she replaces.

8.7. *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 of Directors are communicated to the Managing



Agent (if any) and are carried out, sign all leases, mortgages, deeds, and other written instruments, and sign all promissory notes. The President shall have the general powers and duties of management usually vested in the office of the president of a California nonprofit mutual benefit corporation, and shall have those powers and duties as may be prescribed by the Board of Directors or these Bylaws.

B. *Vice President.* The Vice President shall act in the place and stead of the President in the President's absence or inability or refusal to act, and shall exercise and discharge those other duties as may be required by the Board of Directors. The Vice President, as Chief Financial Officer, shall receive and deposit in appropriate bank accounts all moneys of the Association and shall disburse those funds as directed by resolution of the Board of Directors, sign all promissory notes of the Association, keep proper books of account, and prepare and distribute budgets, financial statements, and income tax returns to each Member as required under these Bylaws and by applicable laws.

C. *Secretary.* The Secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board of Directors and of the Members, serve notice of meetings of the Board of Directors and of the Members, keep appropriate current records showing the Members of the Association and their addresses, and perform those other duties as may be required by the Board of Directors.

ARTICLE IX

COMMITTEES

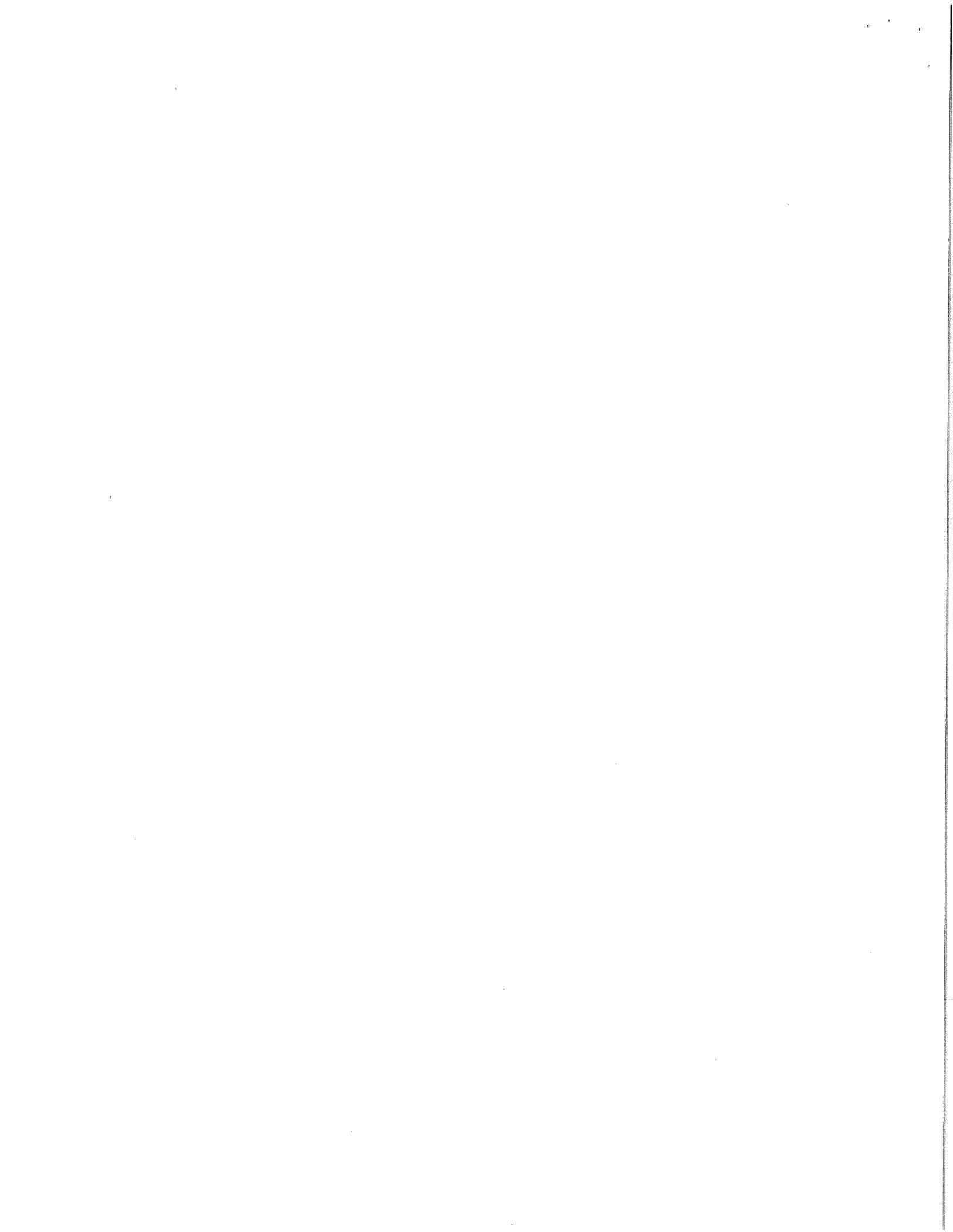
9.1. *Nominating Committee.* A Nominating Committee shall be appointed as provided for in these Bylaws.

9.2. *Architectural Committee.* An Architectural Committee shall be appointed as provided for in the Declaration.

9.3. *Other Committees.* In addition, the Board of Directors shall appoint other committees as deemed appropriate in carrying out its purpose.

9.4. *Purpose of Committees.* The purpose of all committees shall be to assist the Board of Directors in the development of policies and to assist in the oversight and assessment of Association policies. No committee shall be assigned delegated, or chartered in any manner that would authorize it to take final action in the name of the Association. All committees shall report to the Board and shall serve at the pleasure of the Board of Directors. Committees of the Board of Directors shall not have the authority to direct contractors, agents, or officers of the Association.

9.5. *Limitations on Committees.* No committee, regardless of Board of Directors resolution, may (1) take any final action on matters that, under the Nonprofit Corporation Law of California, also require Members' approval; (2) fill vacancies on the Board of Directors or on any



committee; (3) amend or repeal Bylaws or adopt new Bylaws; (4) amend or repeal any resolution of the Board of Directors; (5) appoint any other committees of the Board of Directors or the members of those committees; nor (6) approve any transaction to which the Association is a party and in which one or more directors have a material financial interest.

ARTICLE X

BOOKS AND RECORDS

10.1. *Inspection.* The membership register (including names, mailing addresses, telephone numbers, and voting rights), accounting books and records, and minutes of meetings of the Members, of the Board of Directors (including drafts and summaries), and of committees shall be made for inspection and copying by any Member of the Association, or his or her duly appointed representative, at any reasonable time and for a purpose reasonably related to his or her interest as a Member, at the office of the Association or at any place within the Project the Board may prescribe. Every member of the Board of Directors 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 member of the Board of Directors includes the right to make extracts and copies of documents.

A. 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 below.

B. At the time the pro forma operating budget is distributed or at the time of any general mailing, Members of the Association shall be notified in writing of their right to have copies of the minutes of meetings of the Board of Directors and as to how and where those minutes may be obtained and the cost of obtaining such copies.

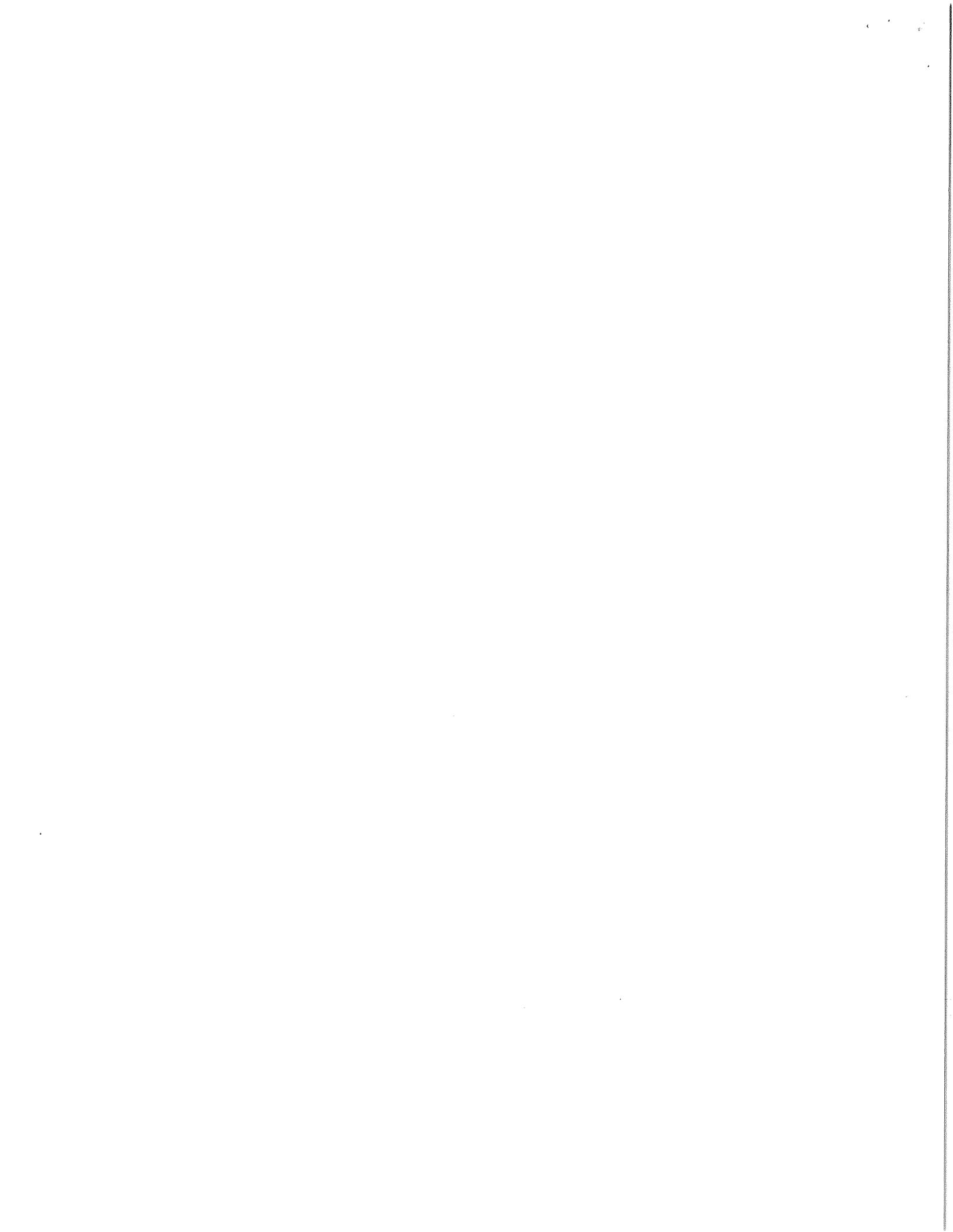
10.2. *Rules for Inspection.* The Board of Directors shall establish reasonable rules with respect to:

A. Notice given to the custodian of the records by the Member desiring to make the inspection;

B. Hours and days of the week when that inspection may be made; and

C. Payment of the cost of reproducing copies of documents by a Member.

10.3. *Documents Provided by Association.* Upon written request, the Association, through the Managing Agent, or if there is no Managing Agent, through the Secretary, within ten (10) days of the mailing or delivery of that request, shall provide a Member with a copy of the governing documents of the Project, a copy of the most recent budget and statements of the Association



distributed in below paragraph 11.1, together with a true statement in writing from an authorized representative of the Association as to the amount of the Association's current regular and special Assessments and fees, as well as any Assessments levied upon the Member's interest that are unpaid on the date of the statement, including late charges, interest, and costs of collection that, as of the date of the statement, are or may be made a lien upon the Owner's Lot. For providing the foregoing, the Board of Directors may impose a fee that may not exceed the reasonable cost to prepare and reproduce the requested documents.

ARTICLE XI

FINANCIAL AND REPORTING REQUIREMENTS

11.1. *Budgets, Financial Statements and Reports.* The Board of Directors shall cause to be prepared and to each Member the following documents:

A. A pro forma operating budget for each fiscal year shall be distributed not less than thirty (30) nor more than ninety (90) days before the beginning of the fiscal year consisting of at least the following:

(1) The 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 California Civil Code section 5565, based only on assets held in cash or cash equivalents, which shall be printed in boldface type and include all of the following:

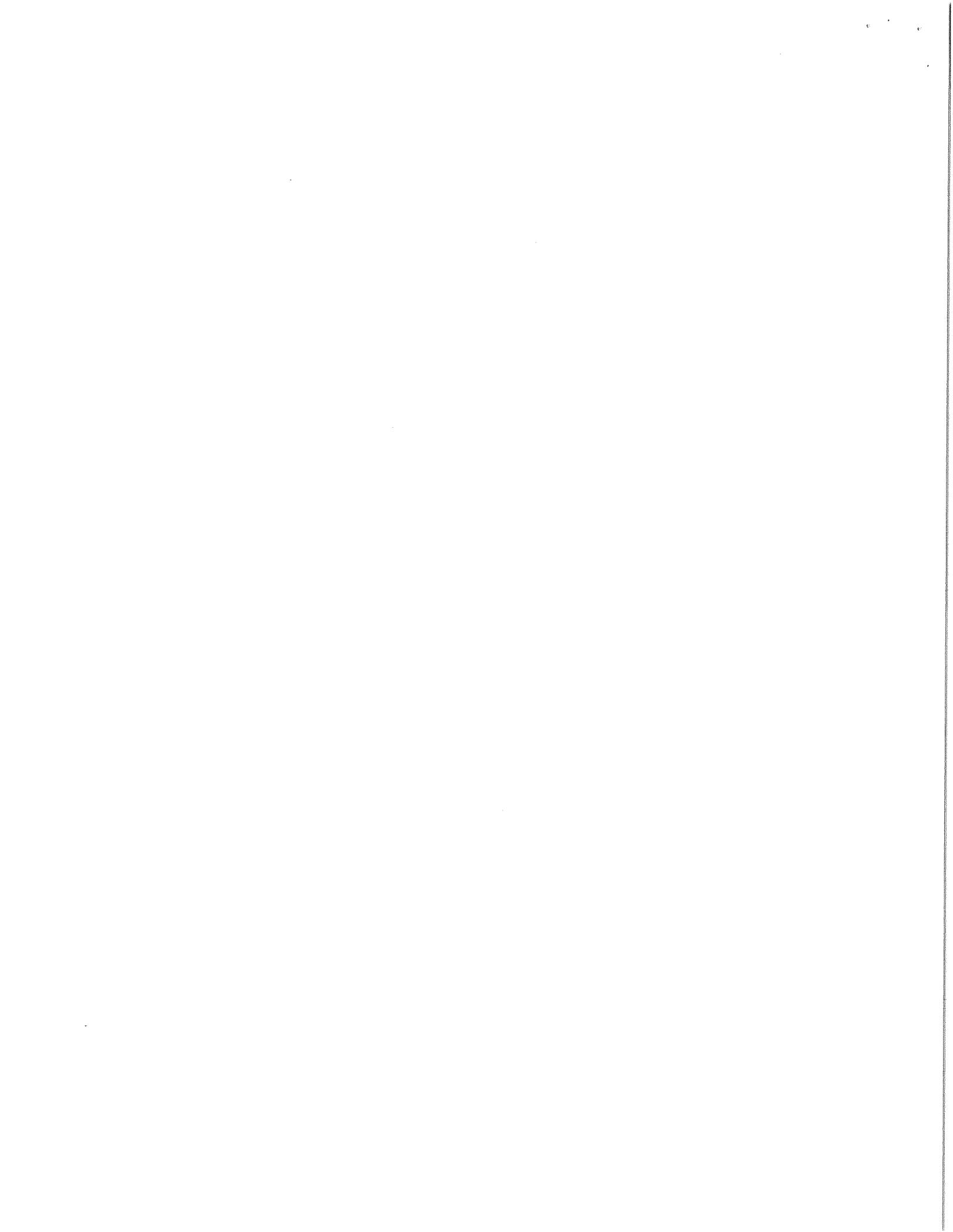
(a) The current estimated replacement cost, estimated remaining life, and estimated useful life of each major component.

(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 an Association from any person or entity for injuries to property, real or personal, arising out of 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). Instead 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 of 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).

(d) The current deficiency in reserve funding expressed on a per unit basis. The figure shall be calculated by subtracting the amount determined for purposes of clause (ii) of subparagraph (b) from the amount determined for purposes of clause (i) of subparagraph (b) and then dividing the result by the number of separate interests within the Association, except that if assessments vary by the size or type of ownership interest, then the Association shall calculate the current deficiency in a manner that reflects the variation.

(e) The summary of the association's reserves disclosed pursuant to this Section 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.

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

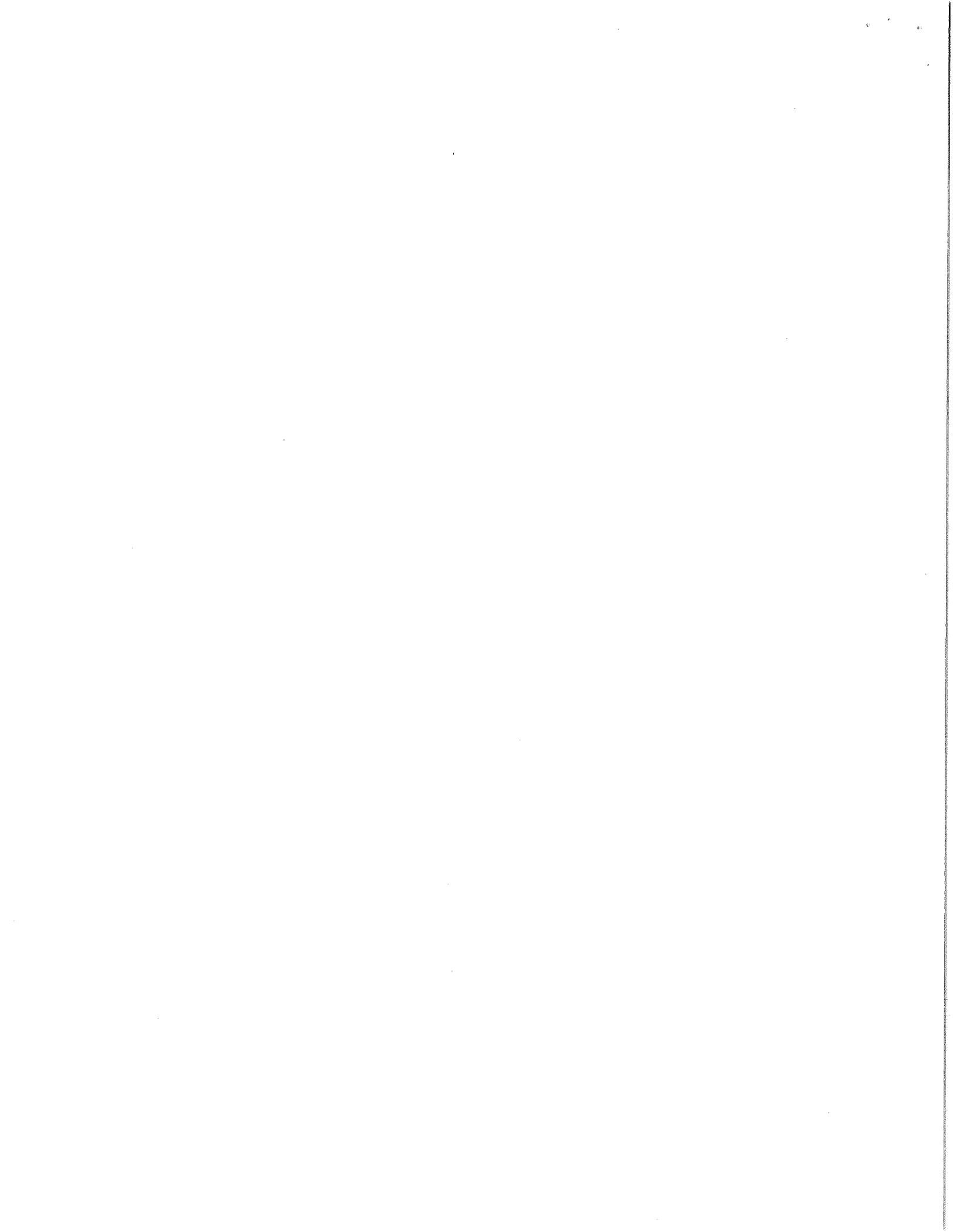
(a) Whether the Board of Directors of the Association has determined to defer or not undertake repairs or replacement of any major component with a remaining life of thirty (30) years or less, including a justification for the deferral or decision not to undertake the repairs or replacement.

(b) Whether the Board of Directors of the Association, consistent with the reserve funding plan adopted pursuant to subdivision (e) of California Civil Code section 5500, 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.

(c) 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 replacements or repairs, or alternative mechanisms.

(d) Whether the Association has any outstanding loans with an original term of more than one year, including the payee, interest rate, amount outstanding, annual payment, and when the loan is scheduled to be retired.

(4) A general statement addressing the procedures used for 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 shall include, but need not be limited to, reserve calculations made using the formula described in paragraph (4) of subdivision (b) of California Civil Code section 5570, and may not assume a rate of return on cash reserves in excess of 2 percent above the discount rate published by the Federal Reserve Bank of San Francisco at the time the calculation was made.



B. Commencing January 1, 2009, a summary of the reserve funding plan adopted by the Board of Directors of the Association, as specified in paragraph (2) of subdivision (b) of California Civil Code section 5300. The summary shall include notice to Members that the full reserve study plan is available upon request, and the Association shall provide the full reserve plan to any Member upon request.

C. The Assessment and Reserve Funding Disclosure Summary form, prepared pursuant to California Civil Code section 5570, shall accompany each annual budget report or summary of the annual budget report that is delivered pursuant to this Section.

D. 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 Board of Accountancy for any fiscal year in which the gross income to the Association exceeds seventy-five thousand dollars (\$75,000) in accordance with California Civil Code section 5305. A copy of the review of the financial statement shall be distributed within one hundred-twenty (120) days after the close of each fiscal year, by individual delivery pursuant to California Civil Code section 4040.

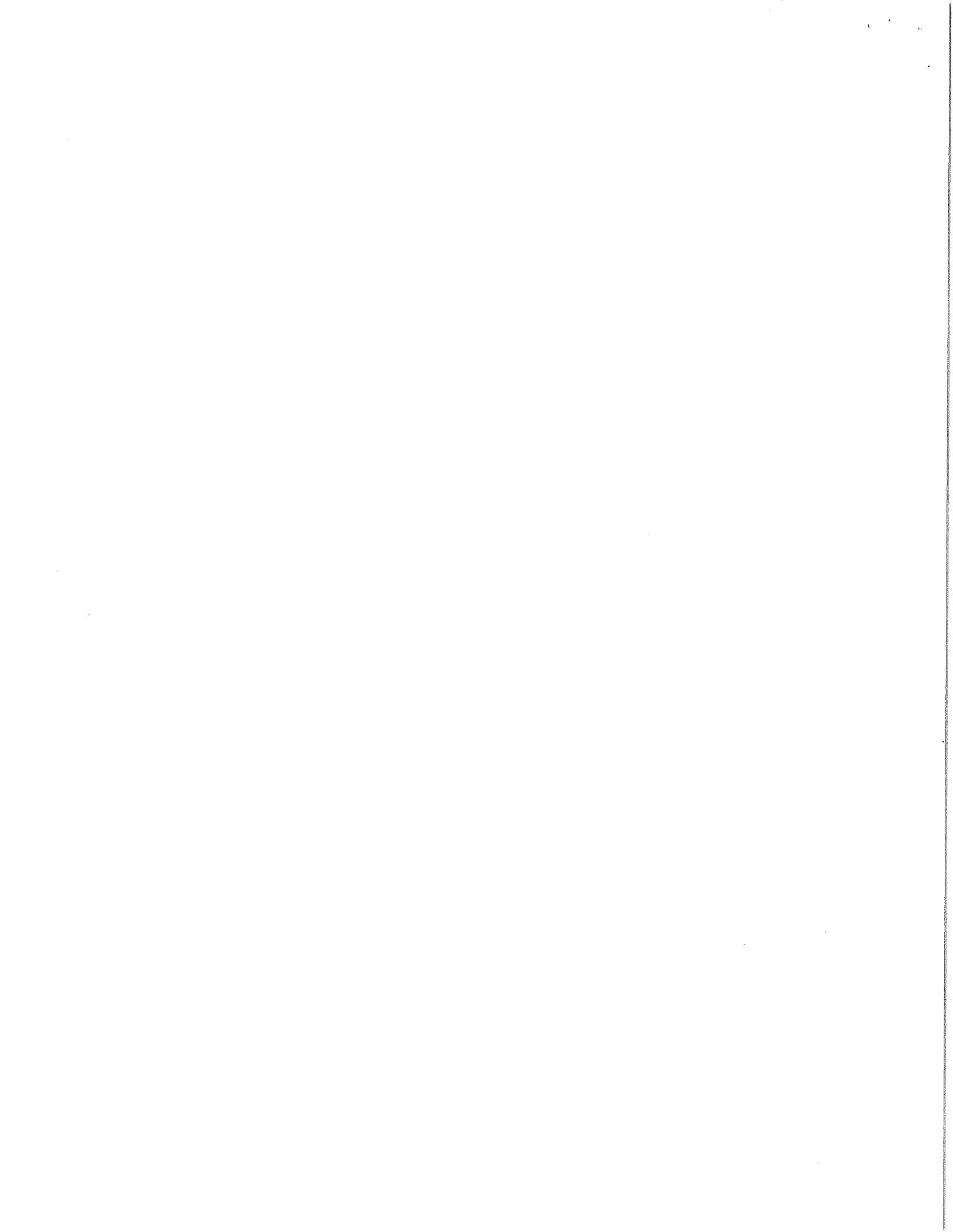
E. A statement describing the Association's policies and practices in enforcing lien rights or other legal remedies for default in payment of its assessments against its Members shall be annually delivered to the Members not less than thirty (30) days nor more than ninety (90) days immediately preceding the beginning of the Association's fiscal year.

F. A summary of the Association's property, general liability, earthquake, flood, and fidelity insurance policies, which shall be distributed not less than thirty (30) days nor more than ninety (90) days preceding the beginning of the Association's fiscal year, that includes all of the following information about each policy:

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

The Association shall, as soon as reasonably practicable, notify its Members by first-class mail if any of the policies described above 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 nonrenewal of a policy described above, the Association shall immediately notify its Members if replacement coverage will not be in effect by the date the existing coverage will lapse.

The summary distributed 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, as required by Section 5300 of the Civil Code, and 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 personal injuries or other losses that occur within or around your dwelling. 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."

11.2. *Income Tax Returns.* The Association shall file income tax returns as set forth in the Declaration. The income tax returns shall be prepared by an independent licensee of the California State Board of Accountancy. Every Member of the Association shall have a copy of the income tax returns within sixty (60) days of the filings and a copy of the engagement letter with the licensee who prepared the returns.

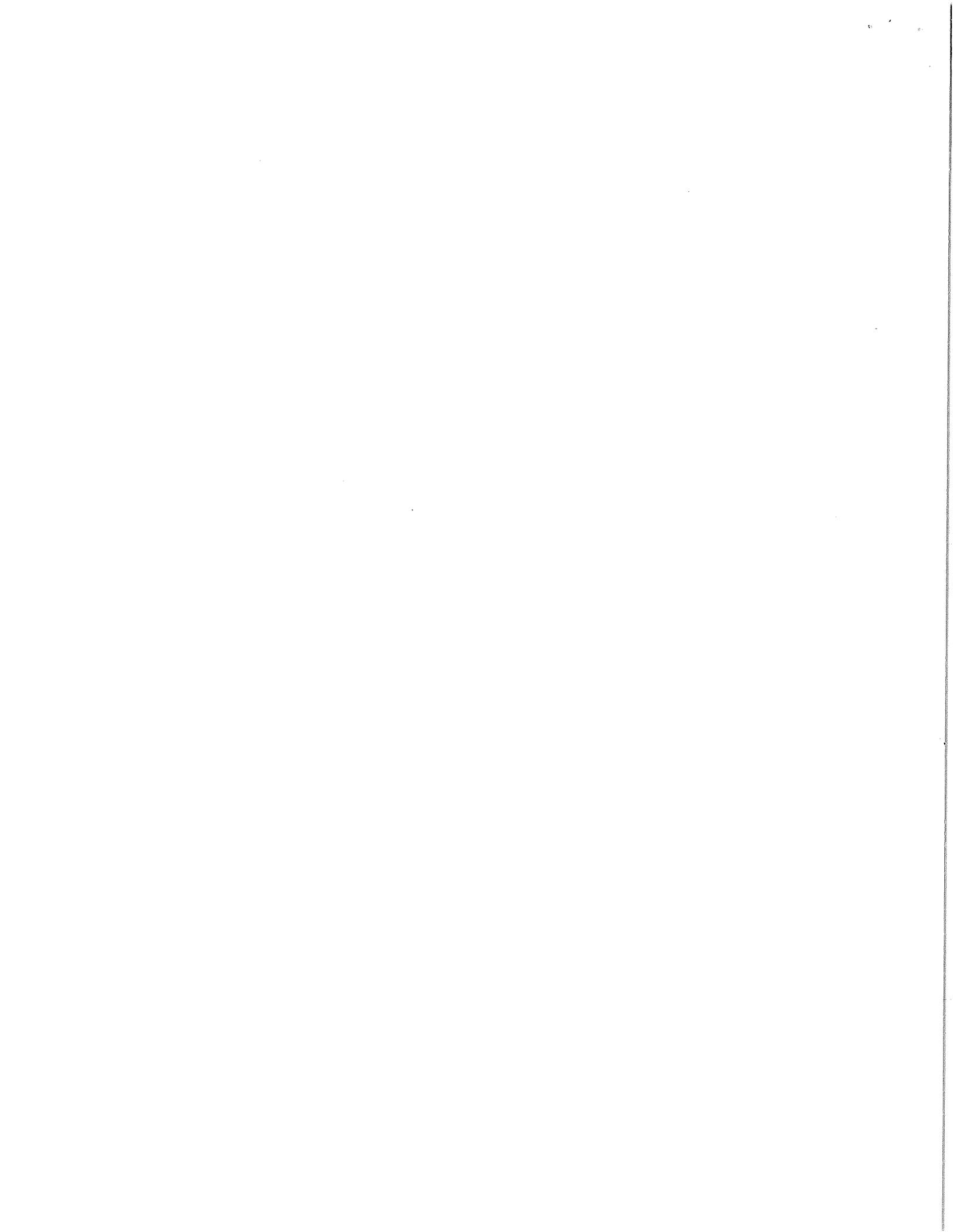
11.3. *Accounting Procedures.* The following pertain to internal accounting procedures:

A. *Operational Account.* The purpose of the operational account is to pay ordinary monthly expenses of the Association and insurance policies. Minor repairs, not to exceed ten percent (10%) of the previous year's annual operating budget, may be paid from the operational account at the discretion of the Board of Directors. The only persons that shall have signatory rights to the operational account are the President, Vice President and Secretary of the Association, and the Managing Agent, if any.

B. *Reserve Accounts.* Should the Board of Directors, in its discretion, impose any reserve accounts, these reserve accounts shall be part of a special Assessment and shall be for capital improvements only which shall be maintained in separate capital improvement accounts. The only persons that shall have signatory rights to any capital improvement accounts shall be the President, Vice President, and Secretary of the Association. There shall be two signatures required to withdraw any funds from the reserve accounts.

C. *Capital Improvement Accounts.* The Members shall be billed for a specific purpose which the Members by a majority eligible to vote shall (1) approve the funding as a special assessment no later than December 1st of each calendar year; (2) maintain the account in a separate bank account as set forth in the provisions above; and (3) separately state the purpose of the account. If the capital improvement account is set aside for a major repair or replacement of a structural component, as opposed to the purchase of new assets or creation of an improvement, the Association shall attribute interest earned on the account to the Members and provide a pro rata statement to each Member no later than January 31st following the year in which the interest was earned.

D. *Excess Assessments.* No later than December 1st of each calendar year, the Members by a majority eligible to vote shall vote whether to (i) return excess assessments, if any, to the Owners according to their pro rata assessed share; (ii) apply excess assessments to the



next year's assessments; or (iii) keep the excess assessments in the operational account which may be subject to income tax. The vote shall be by written ballot and may be by proxy on file with the Association. Every ballot shall include a statement that if the Members decide to apply the excess assessments to the next year's assessments that the application of these assessments shall be rolled over for one year only. In no event shall excess assessments be applied to capital improvement accounts.

11.4. *Review of Financial Records.* The Board of Directors shall review on at least a quarterly basis a current reconciliation of the Association's operating and capital improvement accounts, the current year's actual revenues and expenses compared to the current year's budget, and the latest account statements prepared by the financial institutions where the Association has its accounts.

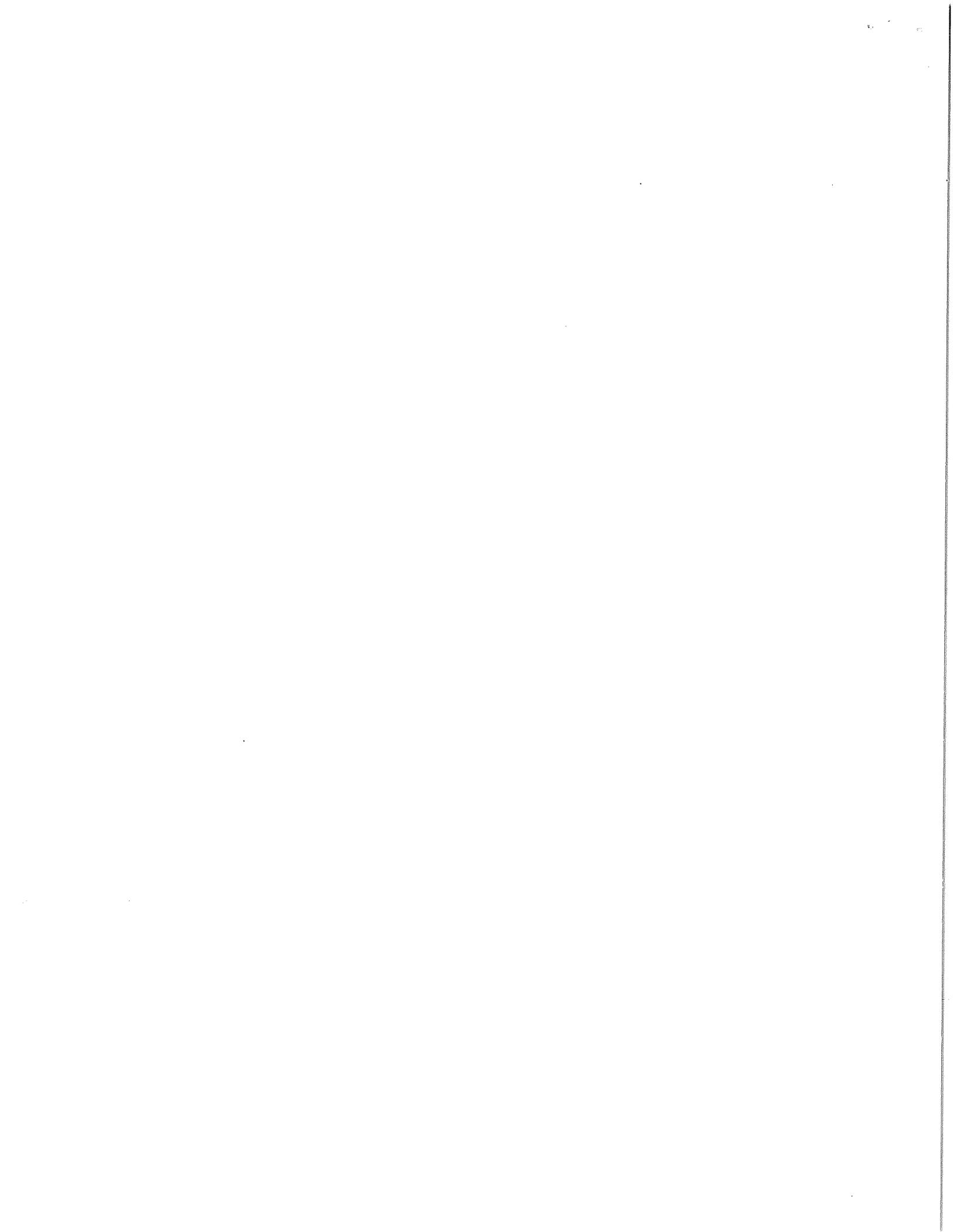
ARTICLE XII

GENERAL PROVISIONS

12.1. *Amendments.* These Bylaws may be amended only by the affirmative vote (in person or by proxy) or written consent of Members representing (i) at least a bare majority of a quorum, but not more than a bare majority of the total voting power of the Association, and (ii) at least a bare majority of Members other than the subdivider. However, the percentage of voting power necessary to amend a specific clause shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause. Any amendment must be certified in a writing executed and acknowledged by the President or Vice President of the Association and recorded in the Recorder's Office of the County of San Luis Obispo, State of California.

12.2. *Conflicts.* In the case of any conflict between the Articles of Incorporation and these Bylaws, the Articles of Incorporation shall control; and in the case of any conflict between the Declaration and these Bylaws, the Declaration shall control.

12.3. *Fiscal Year.* The fiscal year of the Association shall begin on the first day of January and end on the last day of December of each calendar year.



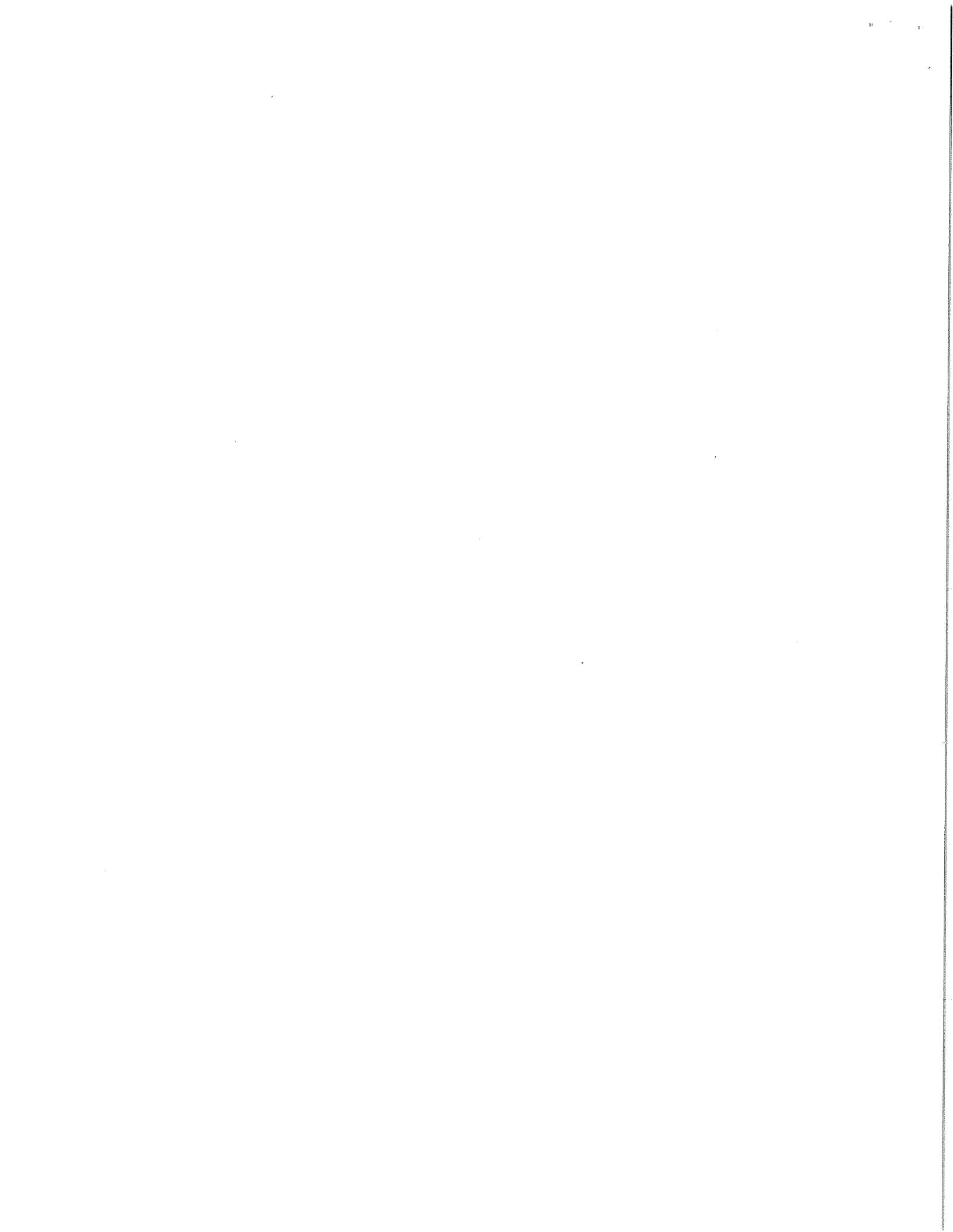
CERTIFICATE

CERTIFICATE OF SECRETARY

TOSCANO HOMEOWNER'S ASSOCIATION, a California nonprofit mutual benefit corporation, do certify that these Bylaws were adopted as the Bylaws of the Association on this ___ day of _____, 201_, and that they do now constitute the Bylaws of the Association.

This Certificate is executed under penalty of perjury on this ___ day of _____, 201_, at _____, California.

By: _____
Its Secretary



ARTICLES OF INCORPORATION
of
TOSCANO HOMEOWNER'S ASSOCIATION

ARTICLE I

NAME

The name of the corporation is TOSCANO HOMEOWNER'S ASSOCIATION ("Association"). This corporation is an association formed to manage a common interest development under the *Davis-Stirling Common Interest Development Act*.

ARTICLE II

PURPOSE OF THE CORPORATION

This corporation is a nonprofit mutual benefit corporation organized under the *Nonprofit Mutual Benefit Corporation Law*. The purpose of this corporation is to engage in any lawful act or activity, other than credit union business, for which a corporation may be organized under such law.

This corporation does not contemplate pecuniary gain or profit to its members, and the specific purpose of this corporation is to provide for management, administration, and maintenance of the private streets and common area included within Lots 1 through 14, 72 through 80, 81, 84, and Lots 86 through 107 of Tract Maps 2948-1, City of San Luis Obispo, County of San Luis Obispo, State of California, and annexable property, all according to that certain Declaration of Covenants, Conditions, and Restrictions of Toscano Homeowner's Association ("Declaration") recorded or to be recorded with respect to the property in the Office of the Recorder of the County of San Luis Obispo, State of California as required by California Civil Code section 4200.

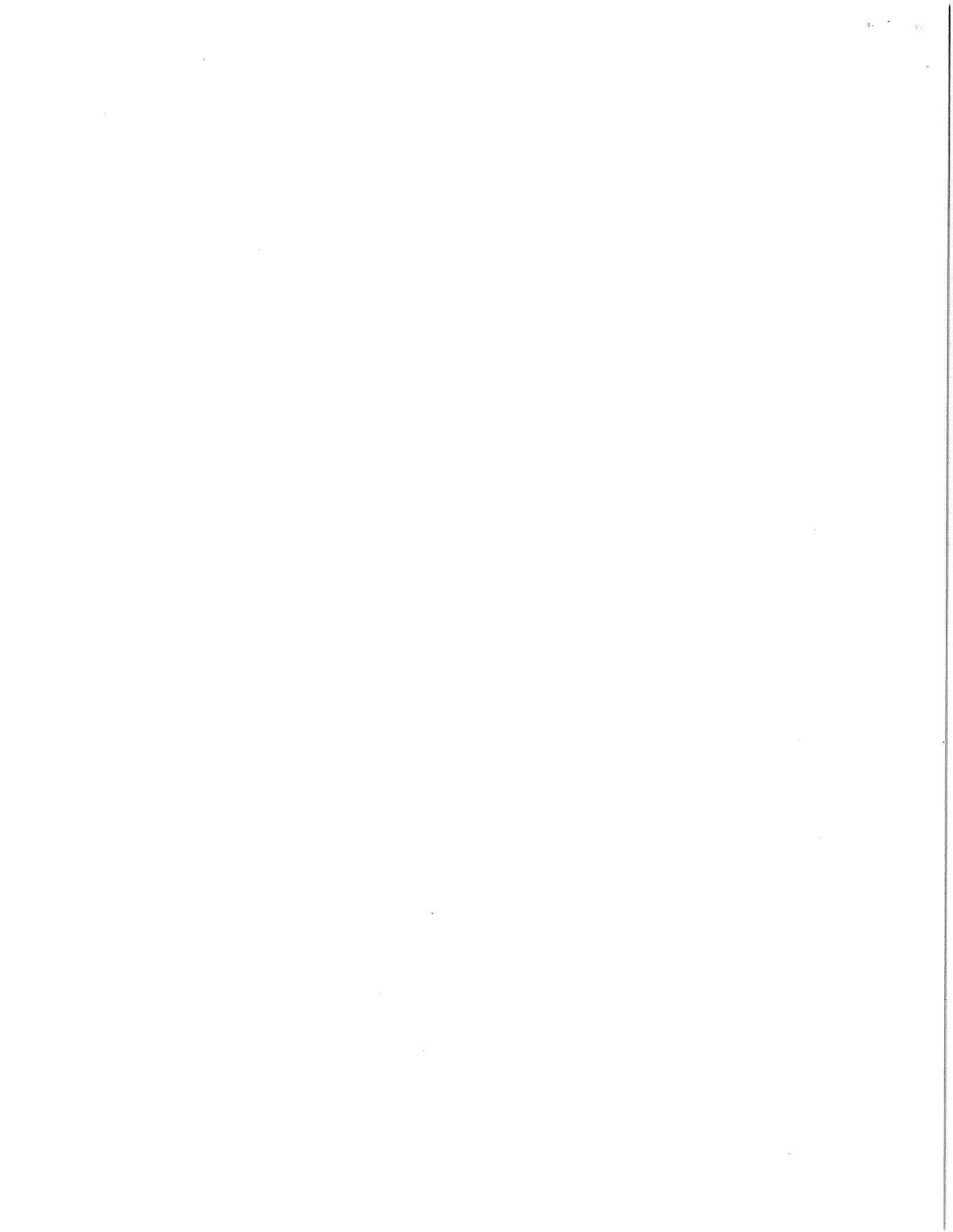
Notwithstanding any of the above statements of purposes and powers, this corporation shall not, except to an insubstantial degree, engage in any activities or exercise any powers that are not in furtherance of the specific purpose of this corporation.

ARTICLE III

INITIAL AGENT FOR SERVICE OF PROCESS

The name and address in California of the corporation's agent for service of process is:

Dennis A. Moresco
7305 Morro Road, Suite 270
Atascadero, California 93422



ARTICLE IV

PHYSICAL LOCATION OF THE COMMON INTEREST DEVELOPMENT

The physical location of the Common Interest Development is;

The physical location is on San Vincenzo drive at its intersection with Calle Malva in the City of San Luis Obispo, California 93401

ARTICLE V

INITIAL STREET ADDRESS OF THE CORPORATION

The initial street address of the corporation is:

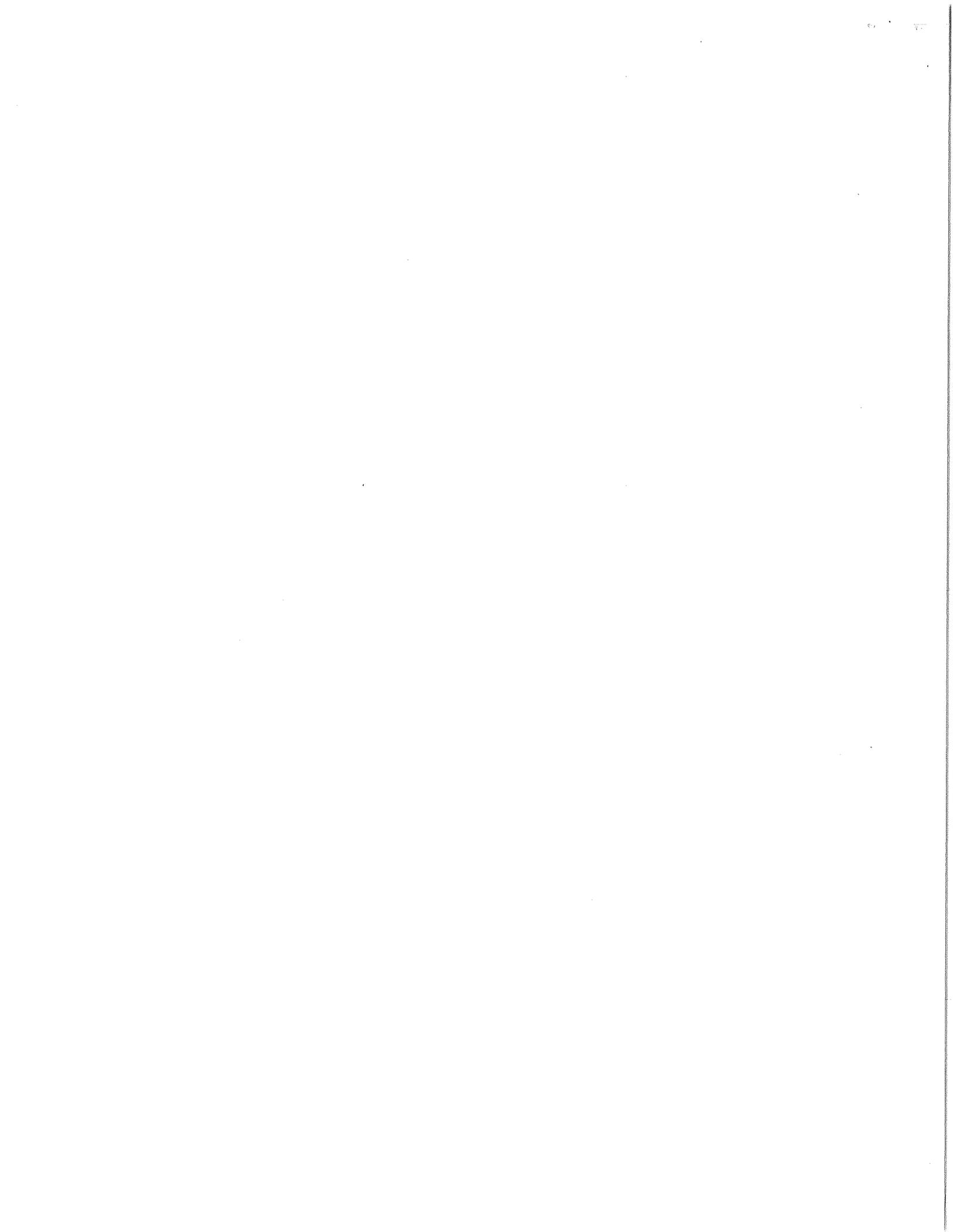
Toscano Homeowner's Association
7305 Morro Road, Suite 270
Atascadero, California 93422

ARTICLE VI

DISSOLUTION

This corporation is intended to qualify as a nonprofit mutual benefit corporation under the applicable provisions of the Internal Revenue Code and the California Revenue and Taxation Code. No part of the net earnings of this organization shall inure to the benefit of any private individual, except as expressly provided in those sections with respect to the acquisition, construction, or provision for management, maintenance, and care of the corporation, and other than by rebate of excess membership dues, fees, or assessments. As long as there is any parcel for which the corporation is obligated to provide management, maintenance, preservation, or control, the corporation shall not transfer all or substantially all of its assets or dissolve without the approval of one-hundred percent (100%) of the members.

In the event of dissolution, liquidation, or winding up of the corporation, upon or after termination of the project, in accordance with provisions of the Declaration, its assets remaining after payment, or provision of payment, of all debts and liabilities of the corporation shall be divided among and distributed to the members in accordance with their respective rights in the project.



ARTICLE VII

AMENDMENTS

These Articles may be amended only by the affirmative vote (in person or by proxy) of members representing at least a bare majority of the voting power of the Association, and at least a bare majority of the votes of members other than the subdivider.

IN WITNESS WHEREOF, for purposes of forming this nonprofit mutual benefit corporation under the laws of the State of California, the undersigned has executed these Articles of Incorporation this _____ day of _____, 2016.

I declare that I am the person who executed the above Articles of Incorporation and such instrument is my act and deed.

MARGARITA RANCH SLO, LLC
A California limited liability company

By: _____
Name: Dennis A. Moresco
Title: Vice President

