

**BYLAWS
OF
RANCHO CERRO
HOMEOWNERS ASSOCIATION** November 1, 2007

ARTICLE I

NAME AND LOCATION

1.01 The name of the corporation for which these are the Bylaws is "RANCHO CERRO HOMEOWNERS ASSOCIATION" (hereinafter referred to simply as the "Association"). The principal office of the Association will be located at the address of the Resident Agent.

ARTICLE II

DEFINITIONS

2.01 The definitions contained and set forth in the Declaration of Covenants, Conditions, and Restrictions and Reservation of Easements for the Rancho Cerro planned community in the Municipality of Los Barriles hereinafter referred to simply as the "Declaration" and are incorporated herein by reference and made a part hereof as though set forth in full.

ARTICLE III

MEETING OF MEMBERS AND VOTING

3.01 Annual Meeting. The first (organizational) annual meeting of the Members will be held within one (1) year from the date of incorporation or establishment of the Association, and/or not later than six (6) months after the close of escrow on the sale of the first (1st) lot in Rancho Cerro, which ever will first occur. The date, time, and place of the first annual meeting will be set by the Board at the organizational meeting so as to occur no later than ninety (90)days after the close of the Association's fiscal year. Subsequent regular annual meetings of the Members will be held within thirty (30) days of the same day of the same month of each year thereafter, at the same hour of the day.

3.02 Special Meetings. A special meeting of the Members will be promptly scheduled by the Board of Directors in response to a majority vote of the Board itself, a request by the President or a written request for a special meeting signed by Members representing at least ten percent (10%) percent of the total voting power of the Association. The provisions of the Declaration, as related to special meetings of the Association,

are incorporated herein by reference and made a part hereof as though set forth in full.

3.03 Notice and Place of Meetings. Written notice of each meeting of the Members will be given by, or at the direction of the Secretary or person authorized to call the meeting, by personal delivery or mailing a copy of such notice, postage prepaid, at least ten (10) days, but not more than sixty (60) days before such meeting to each institutional lender requesting notice and to each member, addressed to the Member's Lot Number address last appearing on the books of the Association, or supplied by such Member to the Association for the purpose of notice. Such notice will specify the time and place of the meeting, and include a copy of the agenda. Notwithstanding any other provision of law, notice of meetings of the Members will specify those matters the Board intends to present for action by the Members. Such notice will also provide notification of the right of the Lot Owner to have a copy of the minutes or a summary of the minutes of the meeting distributed to him upon request and, if required by the Board of Directors, upon payment to the Association of the cost of making the distribution. In addition the notice will also provide notification of the right of the Lot Owner to speak to the Association or Board of Directors, unless the Board of Directors is meeting in an executive session.

The Agenda for the meeting must consist of (a) a clear and complete statement of the topics scheduled to be considered during the meeting, including without limitation, any proposed amendment to the Declaration or Bylaws, any fees or assessments to be imposed or increased by the Association, any budgetary changes and any proposal to remove an officer or member of the Board of Directors; (b) a list describing the items on which action may be taken and clearly denoting that action may be taken on those items (In an emergency, the Lot Owners may take action on an item which is not listed on the agenda as an item on which action may be taken); and (c) a period devoted to comments by Lot Owners and discussion of those comments. Except in emergencies, no action may be taken upon a matter raised under this item of the Agenda until the matter itself has been specifically included on an Agenda as an item upon which action may be taken pursuant to phrase (b) of the foregoing sentence. Meetings will be held within the Project, or at a meeting place within the same county and as close to the Project as possible. Institutional lenders may designate in writing a representative to attend all meetings, and are hereby authorized to furnish information to the Association concerning the status of any loan encumbering a lot within the Project.

3.04 Quorum. The presence at any meeting, either in person

or proxy, of Members entitled to cast at least fifty-one (51%) percent of the total voting power of the Association will constitute a quorum for any action except as otherwise provided in the Project Documents. If, however, such a quorum will not be present or represented at any meeting, a majority of the Members entitled to vote there will have the power to adjourn the meeting to date not less than five (5) days nor more than thirty (30) days from the meeting date, at which meeting the quorum requirements will be twenty-five percent (25%) of the total voting power. If a time and place for the adjourned meeting are 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 will be given to members in the manner prescribed for annual meetings. The members present 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 at least twenty percent (20%) of the total voting power of the Association remains present in person and/or by proxy, and provided further that any action taken will be approved by at least a majority of the Members required to constitute a quorum. For the purpose of determining whether a quorum is present for the election of any member of the Board, only the secret written ballots that are returned to the Association may be counted.

3.05 Proxies. At all meetings of Members, each Member may vote in person or by proxy. All proxies will be in writing and filed with the secretary before the appointed time of each meeting. A Member may give a proxy only to a member of his/her immediate family, a tenant of the Member who resides in the common-interest community or another Member who resides in the common-interest community. If a Lot is owned by more than one (1) person, only one person per lot may vote. A proxy terminates immediately after the conclusion of the meeting for which it was executed. A vote may not be cast pursuant to a proxy for the election of a member of the Board.

Every form of proxy or written ballot which provides an opportunity to specify approval, disapproval with respect to any proposal will also contain a space marked "abstain". Any form of proxy or a written ballot distributed by any person to the membership of the Association will afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon, except it will not be mandatory that a candidate for election to the governing body be named in the proxy or written ballot. The proxy or written ballot will provide that, where the member specifies a choice, the vote will be cast in accordance with that choice. The proxy

will also identify the person or persons authorized to exercise the proxy and the length of time it will be valid. After the Secretary of the Association has registered all proxies to be used at a meeting, upon request for a secret ballot all voting at a meeting of the Association must be by secret ballot. If a vote is taken by secret ballot, the secretary will count, or the president may appoint tellers to count, the ballot cast. Only a vote cast in person, by secret ballot or proxy may be counted.

3.06 Membership Classes and Voting Rights. Membership will be held as provided in the Declaration. Voting rights attributable to Lots will not vest until assessments against those Lots have been levied by the Association. The Association will have one (1) class of voting membership. Each Owner of a Lot will be entitled to one (1) vote for each Lot owned. When more than one person holds an interest in any Lot, all such persons will be Members, and the vote for such Unit will be exercised as they among themselves determine, in accordance with the agreement of a majority in interest of the Owners, but in no event will more than one vote be cast with respect to any Lot. There is majority agreement if any one of the Owners cast the votes allocated to the Lot without protest made promptly to the person presiding over the meeting by any of the other Owners of the Lot. If only one of several Owners of a Lot is present at a meeting of the Association that Owner is entitled to cast one vote allocated to that Lot.

3.07 Action Without Meeting. Any action which may be taken by the vote of Members at a regular meeting or special meeting, except the election of the Members of the Board of Directors, may be taken without a meeting and without prior notice, if authorized by a written consent setting forth the action so taken, signed by Members having the requisite number of votes necessary to authorize or take such action at a meeting at which all Members were present, voted, and filed with the Secretary of the Association. A member or proxy holder may revoke any such consent provided such written revocation is received by the Association prior to the time that written consents of the number of Members required to authorize the proposed actions have been filed with the Secretary of the Association. Such revocation will be effective upon its receipt by the Secretary of the Association.

Unless the consent of all Members have been solicited in Writing or by fax or email and have been received, prompt notice will be given, in the manner as for annual meetings of Members, to those Members who have not consented in writing, of the taking of any Association action approved by Members without a meeting. Such notice will be given at least ten (10) days before the consummation of the action authorized by such

approval with respect to the following:

(a) Approval of any reorganization of the Association;

(b) A proposal to approve a contract or other transaction between the Association and one or more Directors, or any corporation, firm or association in which one or more Directors have a material financial interest; or

(c) Approval required by law for the indemnification of any person.

3.08 Conduct of Meetings. Meetings of the membership of the Association will be conducted in accordance with a recognized system of parliamentary procedure or such parliamentary procedure as the Association may adopt.

3.09 Attendance and Participation at Meetings. A Member, as defined in the recorded Declaration, may attend any meeting of the Association or of the Board of Directors and speak at any such meeting. The Board of Directors may establish reasonable limitations on the time a Member may speak at such a meeting.

3.10 Minutes of Meetings. Not more than thirty (30) days after any meeting of the Lot Owners, the Secretary of the Association, shall cause the minutes or summary of the minutes of the meeting to be made available to Lot Owners. A copy of the minutes or a summary of the minutes must be provided to any Lot Owner who pays the Association the cost of providing the copy to him, be it fax, postal mail or other.

ARTICLE IV

BOARD OF DIRECTORS: SELECTION, TERM OF OFFICE, MEETINGS, POWERS AND DUTIES

4.01 Number. The affairs of this Association will be managed by a Board of three (3) Directors who must be members of the Association. The initial three (3) Directors will be appointed by Declarant and designated in the Articles of Incorporation and will hold office until their successors are elected at the first (organizational) meeting of the Members. Each Director must be one of the following: (a) The Owner of a Lot in the Project; (b) an officer, employee, agent, or director of a corporate Owner of a Lot; (c) a trustee or designated beneficiary of a trust that owns a Lot; (d) a partner of a partnership that owns a Lot; or (e) a fiduciary of an estate that owns a Lot. In all events where the person serving or

offering to serve as an Officer or member of the Board is not the record Owner of a Lot, he will file proof in the records of the Association that: (a) he/she is associated with the corporate owner, trust, partnership, or estate and (b) he/she identifies the Lot(s) owned by the corporate owner, trust partnership or estate. Each member of the Board of Directors shall, within thirty (30) days after his/her appointment or election, certify in writing that he/she has read and understands the Governing Documents of the Association to the best of his/her ability. As provided in the Declaration, Declarant will have the right to appoint and remove the members of the Board of Directors, subject to the following limitations:

(a) Not later than sixty (60) days after conveyance by Declarant of twenty-five percent (25%) of the Lots that may be created to Lot Owners other than a Declarant, at least one (1) Director and not less than twenty-five percent (25%) of the total number of Directors must be elected by Owners other than Declarant.

(b) Not later than sixty (60) days after conveyance of fifty percent (50%) of the Lots that may be created to Lot Owners other than a Declarant, not less than one third (1/3) of the total number of Directors must be elected by Owners other than Declarant.

(c) The power reserved to Declarant in this Section 4.01 to appoint or remove a majority of the members of the Board of Directors will terminate on the earliest of:

(i) Sixty (60) days after conveyance by Declarant of eighty-five percent (85%) of the Lots that may be created to Lot Owners other than a Declarant;

(ii) Five (5) years after all Declarants have ceased to offer Units for sale in the ordinary course of business; or

(iii) Five (5) years after any right to add new Lots was last exercised.

In the first month immediately after the termination of any period of Declarant's control, the Owners will elect a Board of Directors, a majority of whom must be Owners other than the Declarant. The Board will elect the Officers. The members and Officers of the Board shall take office upon election.

4.02 Term of Office. At the first (organizational) meeting of the Association, the Members shall elect three (3) Directors to serve until the first annual meeting. At the first annual meeting and each annual meeting thereafter, the Members shall

elect two (2) Directors for a term of two (2) years and one (1) director for a term of one (1) year. The term of office of a Member of the Board of Directors may not exceed two (2) years. A member of the Board of Directors may be elected to succeed himself/herself. In the event that any such annual meeting is not held or the Directors not elected at such meeting, the Directors may be elected at any special meeting of the Association held for that purpose, and all incumbent Directors shall hold their office until their successors are elected.

4.03 Nomination. Nomination for election to the Board of Directors shall be made by a Nominating Committee. Notice to the Members of the Association of the meeting 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 at the annual meeting. The Nominating Committee shall consist of a chairman, who shall be a director, and two (2) 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 Association, to serve until the close of such 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 qualifications to Members and to solicit votes.

4.04 Notice of Eligibility. Not less than thirty (30) days before the preparation of a ballot for the election of members of the Board of Directors, the Secretary shall cause notice to be given to each of the Owner(s) of a Lot of his/her eligibility to serve as a member of the Board of Directors. Each of the Owner(s) of a Lot who is qualified to serve as a member of the Board of Directors may have his/her name placed on the ballot along with the names of the nominees selected by the members of the Board of Directors or a nominating committee as provided for herein.

4.05 Election. The first election of the Board shall be conducted at the first (organizational) meeting of the Association. The election of any member of the Board of Directors must be conducted by secret written ballot. The secretary shall cause to be sent prepaid by United States mail to the mailing address of each Lot within the common-interest community or to any other mailing address designated in writing by the Lot Owner(s), a secret ballot and a return envelope. At such election, the Members or their proxies may cast, in respect to each vacancy, as many votes as they are entitled to exercise under the provisions of the Project Documents. The person receiving the largest number of votes shall be elected.

Cumulative voting shall be utilized during all elections in which two (2) or more positions on the Board are to be filled. Voting for Directors shall be by secret written ballot. A Member shall be entitled to cumulate his/her vote for one or more candidates for the Board of Directors if the candidate's name has been placed in nomination prior to voting and if the Member has given notice at the meeting prior to the voting of his/her intention to cumulate votes. If any one Member has given such notice, all Members may cumulate their votes for candidates in nomination. Votes cast for the election of member of the Board must be counted in public.

4.06 Removal; Vacancies. The members, by a two-thirds (2/3) vote of all persons present and entitled to vote at any meeting of the Members at which a quorum is present, may remove any member of the Board with or without cause, other than a member appointed by the Declarant. Any Director appointed by the Declarant may only be removed by Declarant. In the event of death or resignation of a Director, his successor shall be selected by a majority of the remaining Directors or by a sole remaining Director, and shall serve for the unexpired term of his predecessor. The Members may elect a Director at any time to fill any vacancy not filled by the Directors. Any vacancy created by the removal of a Director can be filled only by election of the Members.

4.07 Regular Meetings. Regular meetings of the Board of Directors shall be held monthly, or by agreement at another time at such place within the Project and at such hour as may be fixed from time to time by resolution of the Board. A meeting of the Board of Directors must be held at least once every ninety (90) days. In an emergency, the Board of Directors may take an action on an item which is not listed on the agenda as an item on which action may be taken.

4.08 Notice to Owner's of Regular Meetings. Except in an emergency, the Secretary of the Association shall, not less than ten (10) days before the date of a meeting of the Board of Directors, cause the notice of the meeting to be given to the Lot Owner(s). Such notice must be:

(a) Sent prepaid by mail, fax or email to the mailing address of each Lot within the common-interest community or to any other mailing address designated in writing by the Lot Owner(s); or

(b) Published in a newsletter or other similar publication that is circulated to each Lot Owner(s).

In an emergency, the Secretary of the Association shall, if

practicable, cause notice of the meeting to be sent prepaid by United States mail to the mailing address, fax or email address of each Lot within the common-interest community. If delivery of the notice in this manner is impracticable, the notice must be hand-delivered to each Lot within the common-interest community or posted in a prominent place or places with the common elements of the Association.

The notice of a meeting of the Board of Directors must state the time and place of the meeting and include a copy of the agenda for the meeting or the date on which and the locations where copies of the agenda may be conveniently obtained by the Lot Owner(s) of the Association. The notice must include notification of the right of Lot Owner(s) to:

(a) Have a copy of the minutes or a summary of the minutes of the meeting distributed to him or her upon request and, if required by the Board of Directors, upon payment to the Association of the cost of making the distribution.

(b) Speak to the Association or the Board of Directors, unless the Board of Directors is meeting in executive session.

4.09 Special Meetings. Special Meetings of the Board of Directors shall be held when called by written notice signed by the president of the Association or by any two (2) Directors other than the president.

4.10 Quorum; Notice of Adjourned Meeting. A majority of the number of Directors shall constitute a quorum and be necessary for the transaction of business, except to adjourn until the time fixed for the next regular meeting of the Directors. Every act performed or decision made by a majority of the Directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of Directors, if any action taken is approved by at least a majority of the required quorum for the meeting. Notice of the time and place of holding the 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 posted at a prominent place within the Common Area. An explanation of the action taken shall be posted at a prominent place within the Common Area within three (3) days after the meeting. If the Common Area consists of only an easement or is

otherwise unsuitable for posting of such notice or explanation, the Board shall communicate such notice or explanation by any means it deems appropriate.

4.11 Open Meetings. Any Member of the Association may attend meetings of the Board of Directors of the Association, except when the Board adjourns to executive session to consider matters set forth in Section 4.10. A member is not entitled to attend or speak at a meeting the Board of Directors held in executive session. All other meetings of the Board shall be open to all Members, but Members other than Directors may not participate in any discussion or deliberation unless expressly so authorized by a majority of a quorum of the Board. The period required to be devoted to comments by Lot Owner(s) and discussion of those comments must be scheduled for the beginning of each meeting.

4.12 Minutes of Meetings. Not more than thirty (30) days after any meeting of the Board of Directors, the Secretary of the Association, shall cause the minutes or a summary of the minutes of the meeting to be made available to Lot Owners. A copy of the minutes or a summary of the minutes must be provided to a Lot Owner who pays the Association the cost of providing the copy to the Lot Owner.

4.13 Executive Session. The Board 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, adjourn a meeting and reconvene in executive session to: (1) consult with the attorney for the Association on matters relating to proposed or pending litigation; (2) discuss matters relation to personnel; or (3) discuss a violation of the Governing Documents alleged to have been committed by a Member, including, without limitation, the failure to pay an assessment, except as otherwise provided herein. The nature of any and all business to be considered in executive session shall first be announced in open session. The Board shall meet in executive session to hold a hearing on an alleged violation of the Governing Documents unless the Lot Owner(s), who allegedly committed the violation, requests in writing that the hearing be conducted by the Board at an open meeting. The Lot Owners, alleged to have committed the violation, may attend the hearing and testify concerning the alleged violation, but may be excluded by the Board form any other portion of the hearing, including, without limitation, the deliberations of the Board. Any matter discussed in executive session shall be generally noted in the minutes of the Board of Directors. The Board of Directors shall maintain minutes of any decision made pursuant to phrase (3) of the first sentence of this Section 4.10 and, upon request, provide a copy of those minutes to the Member who was the subject of the decision or to

his/her designated representative. Except as otherwise provided herein, the Lot Owner(s) is/are not entitled to attend or speak at a meeting of the Board held in executive session.

4.14 Action Taken Without a Meeting. The Directors may take any action in the absence of a meeting which they are required or permitted to take at a meeting, by obtaining the written approval of all the Directors. Any action so approved shall have the same effect as though taken at a meeting of the Directors. If the Board of Directors resolves by unanimous written consent to take action, an explanation of the action taken shall be posted at a prominent place or places within the Common Area within three (3) days after the written consents of all Directors have been obtained. If the Common Area consists of only an easement or is otherwise unsuitable for posting the explanation of the action taken, the Board shall communicate said explanation by any means it deems appropriate.

4.15 Duties. It shall be the duty of the Board of Directors to:

(a) Maintenance: Maintain the Project in accordance with the provisions of the Project Documents.

(b) Discharge of Liens: Discharge by payment, if necessary, any lien against the Common Area and assess the costs thereof to the Member or Members responsible for the existence of said lien.

(c) Assessments: Fix, levy, collect, and enforce assessments as set forth in the Project Documents.

(d) Expenses and Obligations: 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.

(e) Records: Cause to be kept a complete record of all its acts and affairs and to present a statement thereof to the Members at the annual meeting of the Members, or at any special meeting when such statement is requested in writing by one-fourth (1/4th) of the Members; keep adequate and correct books and records of account, minutes of its own proceedings and those of its committees, and a record of its Members and the members of the Association, giving their names and addresses and classes of membership.

(f) Supervision: Supervise all officers, agents, and employees of the Association, and see that their duties are

properly performed.

(g) Enforcement: Enforce the provisions of the Project Documents.

(h) Form and administer the Architectural Design Review Board (ADRB, whose members consist of the Developer(s) and two (2) members of the Rancho Cerro Homeowner's Association and whose duties are to review and approve of proposed building plans with respect to building codes as listed in Article X of the Covenants, Conditions and Restrictions of Rancho Cerro, and in accordance with the building codes of the County of La Paz, B.C.S., Mexico. The ADRB will administer the Contractor Guidelines (ARTICLE B) In addition, the duties of the ADRB include encouraging Lot Owners, their architects and builders to create their structures in the design spirit of esthetics, quality and character that is unique to the topography of the Rancho Cerro community.

In the performance of their duties, the officers and members of the Board of Directors are fiduciaries and are subject to insulation from liability provided for Directors of a corporation. The members of the Board are required to exercise the ordinary and reasonable care of Directors of a corporation, subject to the business-judgment rule.

4.16 Powers. The Board of Directors shall have the power to:

(a) Adoption of Rules: Adopt rules in accordance with the provisions of the Project Documents.

(b) Assessments, Liens, and Fines: Levy and collect assessments and impose fines as provided in the Project Documents.

(c) Enforcement: Enforce the provisions of the Project Documents.

(d) Contracts: Contract for goods and/or services in accordance with the provisions of the Project Documents.

(e) Delegation: Delegate only those powers to other persons or a managing agent as are specifically provided for in the Declaration.

4.17 Prohibited Acts. The Board of Directors shall not take any of the following actions except with the vote or written consent of a majority of the voting power of the Association, which shall include a majority of the votes residing in Members other than the Declarant:

(a) Enter into a contract with a third person wherein the third person will furnish goods or services for the Common Area or the Association for a term longer than one (1) year, with the following exceptions:

(1) A management contract;

(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;

(b) Incur, during any fiscal year, any expenditures for capital improvements to the Common Area aggregate expenditures for such purposes, in excess of five percent (5%) of the budgeted gross expenses of the Association for that fiscal year.

(c) Sell, during any fiscal year, any 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.

(d) Pay compensation to Directors or to the officers of the Association for services performed in the conduct of the Association's business; provided, however, that the Board may cause a Director or officer to be reimbursed for expenses incurred in carrying on the business of the Association.

(e) Fill a vacancy on the Board of Directors created by the removal of a Director.

In addition, the Board of Directors may not act on behalf of the Association to: (1) amend the Declaration; (2) terminate the common-interest community; or (3) elect members of the Board or determine the qualifications, powers, and duties or terms of office but, as provided for herein, may fill vacancies in its membership for the unexpired portion of any term of a Director.

4.18 Compensation. Except as provided in Paragraph 4.17 (d) hereinabove, no Director shall receive compensation for any service he may render to the Association. However, any Director may be reimbursed for his actual expenses incurred in the performance of his duties.

4.19 Indemnification of Officers and Directors. Each Director and officer shall be indemnified by the Association and

the Members against all expenses and liabilities, including attorneys` fees reasonably incurred by or imposed upon him by judgment or settlement in connection with any proceeding to which he may be a party, or to which he may become involved, by reason of his/her being or having been a Director or officer of the Association unless it is proven that the Director or officer acted with willful or wanton misfeasance or with gross negligence in the performance of his/her duties. After such proof, the Association is no longer liable for the costs of defense and may recover costs already expended from the Director or officer who so acted. Members of the Board are not personally liable to the victims of crimes occurring on the project. Punitive damages may not be recovered against the Association, but may be recovered from persons whose activity gave rise to the damages.

4.20 Reserve Study/Reserve Funds.

(a) The Board of Directors shall:

(1) Cause to be conducted at least once every five (5) years, a study of the reserves required to repair, replace and restore the major components of the common elements;

(2) Review the results of that study at least annually to determine if those reserves are sufficient; and

(3) Make any adjustments it deems necessary to maintain the required reserves.

The Reserve Study required by Section 4.17 must be conducted by a person qualified by training and experience to conduct such a study, including a member of the Board of Directors, a Unit Owner or the property manager of the Association who is so qualified. The study must include, without limitation:

(4) A summary of an inspection of the major components of the common elements the Association is obligated to repair, replace, or restore;

(5) An identification of the major components of the common elements that the Association is obligated to repair, replace or restore which have a remaining useful life of less than thirty (30) years;

(6) An estimate of the remaining useful life of each major component identified pursuant to paragraph (b);

(7) An estimate of the cost of repair,

replacement or restoration of each major component identified pursuant to paragraph (2) during and at the end of its useful life; and

(8) An estimate of the total annual assessment that may be required to cover the cost of repairing, replacement, or restoration of the major components identified pursuant to paragraph (2), after subtracting the reserves of the Association as of the date of the study.

(b) Money in the reserve account of the Association May not be withdrawn without the signatures of at least two (2) members of the Board of Directors or the signatures of a least one (1) member of the Board of Directors and one (1) officer of the Association who is not a member of the Board of Directors.

(c) The Board of Directors shall not expend funds designated as reserve funds for any purpose other than the repair, restoration, replacement, or maintenance of, or litigation involving the repair, restoration, replacement, or maintenance of, major components which the Association is obligated to repair, restore, replace or maintain and for which the reserve fund was established. However, the Board may authorize the temporary transfer of money from a reserve fund to the Association's general operating fund to meet short-term cash flow requirements or other expenses. The transferred funds shall be restored to the reserve fund within three (3) years of the date of initial transfer, except that the Board may, upon making a finding supported by documentation that a delay would be in the best interests of the Project, delay the restoration until the time which the Board reasonably determines to be necessary. The Board shall exercise prudent fiscal management in delaying restoration of these funds and in restoring the expended funds to the reserve account, and shall, if necessary, levy a special assessment to recover the full amount of the expended funds within the time limits required by this section.

4.21 Notification to Members. Members of the Association shall be notified in writing at the time that the pro forma budget is distributed or at the time of any general mailing to the entire membership of the Association of their right to have copies of the minutes of meetings of the Board of Directors and how and where those minutes may be obtained.

ARTICLE V

OFFICERS AND THEIR DUTIES

5.01 Enumeration of Officers. The officers of the

Association shall be a president and vice-president, who shall at all times be Directors, a secretary, and chief financial officer (treasurer) and such other officers as the Board may from time to time create by resolution. In order to qualify to serve as an officer of the Association, the person must be the owner of a Lot subject to the recorded Declaration.

5.02 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 Association.

5.03 Term. The officers of the Association shall be elected annually by the Board and each shall hold office for one (1) year unless the officer resigns, or shall be removed, or otherwise disqualified to serve.

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

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

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

5.07 Multiple Offices. After the first (organizational) meeting of the Members of the Association has been held, no person shall simultaneously hold more than one office, except that the offices of secretary and chief financial officer may be held by the same person, and except in the case of special offices created pursuant to Paragraph 5.04 of this Article.

5.08 Duties. The duties of the officers are as follows:

(a) President. The President shall preside at all meetings of the Board of Directors; shall see that orders and resolutions of the Board are carried out; shall sign all leases, mortgages, deeds, and other written instruments, and shall co-sign all checks and promissory notes.

(b) Vice-President. The vice-president shall act in the place and stead of the president in the event of his absence, inability, or refusal to act, and shall exercise and discharge such other duties as may be required of him by the Board.

(c) Secretary. The secretary shall record all votes and keep the minutes of all meetings and proceedings of the Board and of the Association, serve notice of meetings of the Board and of the Association; keep appropriate current records showing the Members of the Association together with their addresses, and shall perform such other duties as required by the Board.

(d) Chief Financial Officer. The chief financial officer shall receive and deposit in appropriate bank accounts all monies of the Association and shall disburse such funds as directed by resolution of the Board of Directors; shall co-sign all checks and promissory notes of the Association; shall keep proper books of account; shall prepare and distribute financial statements to each Member of the Association as follows.

5.09 Documents to be Prepared and Distributed to Members. The Board of Directors of the Association shall, not less than thirty (30) days or more than sixty (60) days before the beginning of the fiscal year of the Association, prepare and distribute to Lot Owner a copy of:

(a) The budget for the daily operation of the Association. The budget must include, without limitation, the estimated annual revenue and expenditures of the Association and any contributions to be made to the reserve account of the Association.

(b) The budget to maintain the reserve shall include, without limitation:

(1) The current estimated replacement cost, estimated remaining life and estimated remaining useful life of each major component of the common elements;

(2) As of the end of the fiscal year for which the budget is prepared, the current estimate of the amount of cash reserves that are set aside, to repair, replace or restore the major components of the common elements;

(3) A statement as to whether the executive board has determined or anticipates that the levy of one or more special assessments will be required to repair, replace or restore any major component of the common elements or to

provide adequate cash reserves for that purpose; and

(4) A general statement describing the procedures used for the estimation and accumulation of cash reserves pursuant to subparagraph (2)

5.10 Budget Summary. In lieu of distributing copies of the budgets of the Association required by subsection 1, the Board of Directors may distribute to each Owner of a Lot a summary of the budgets, accompanied by a written notice that the budgets are available for review at the business office of the Association or other suitable location and that copies of the budgets will be provided upon request.

5.11 Ratification of Budget. The Board shall establish a date for a meeting of the Members to consider ratification of the budget for the daily operation of the Association not less than fourteen (14) days nor more than thirty (30) days mailing of the summary of the daily operation budget. Unless at the meeting a majority of all Members reject the budget, the budget is ratified, whether or not a quorum is present. If the proposed budget is rejected, the periodic budget last ratified by the Members must be continued until such time as the Members ratify a subsequent budget proposed by the Board. The Board of Directors, in accordance with Article IV, Section 4.4 of the Declaration, may increase the Annual Assessments in an amount less than or equal to twenty percent (20%) of the Annual Assessments for the immediately preceding Fiscal Year, without obtaining the approval of Members casting a majority of votes in an Increase Election.

5.12 Distribution of Policies and Practices. 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 during the sixty (60) day period immediately preceding the beginning of the Association's fiscal year.

5.13 Ninety (90) Day Review. At least once every ninety (90) days, the Board of Directors shall review at one of its meetings:

(a) A current reconciliation of the opening account of the Association;

(b) A current reconciliation of the reserve account of the Association;

(c) The actual reserves and expenses for the reserve

account, compared to the budget for that account for the current year;

(d) The latest account statements prepared by the financial institutions in which the accounts of the Association are maintained;

(e) An income and expense statement prepared on at least a quarterly basis, for the operating and reserve accounts of the Association; and

(f) The current status of any civil action or claim submitted to arbitration or mediation in which the Association is a party.

5.14 Distribution of Changes in Project Documents.

If any change is made to the Project Documents of the Association, the Secretary shall, within thirty (30) days after the change is made, prepare and cause to be hand-delivered or sent prepaid by mail to the mailing address, by fax or email of the Lot Owner(s) or to any other mailing address designated in writing by the Lot Owner(s), a copy of the change that was made.

5.15 Officers and Amendments to the Declaration.

The President and the Secretary of the Association are authorized to prepare, execute, certify and record Amendments to the Declaration on behalf of the Association.

ARTICLE VI

BOOKS AND RECORDS

6.01 Inspection by Members. Members of the Association shall have access to Association records. The Project Documents, the membership register (including names, telephone numbers, mailing addresses, and voting rights), the financial statement of the Association, the budgets of the Association required to be prepared in accordance with these Bylaws, the reserve study required to be prepared in accordance with these Bylaws, and the minutes of meetings of the Association, Board, and of committees shall be made available for inspection and copying by any Member of the Association, or by his duly appointed representative, at any reasonable time and for a purpose reasonably related to his interest as a Member, at the business office of the Association or at such other suitable location as the Board may prescribe.

6.02 Inspection by Directors. Every Director shall have the absolute right at any reasonable time to inspect all books, records, and documents of the Association and the physical

properties owned or controlled by the Association. The right of inspection by a Director includes the right to make extracts and copies of documents at reasonable charge.

ARTICLE VII

MISCELLANEOUS

7.01 Committees. The Board of Directors shall appoint an Design Review Committee, as provided in the Declaration, and a Nominating Committee, as provided in the Bylaws. In addition, the Board of Directors shall appoint other committees as deemed appropriate in carrying out its purposes.

7.02 Assessments. Regular and special assessments levied pursuant to the Project Documents are delinquent fifteen (15) days after they become due. If an assessment is delinquent, the Association may recover all of the following:

(a) Reasonable costs incurred in collecting the delinquent assessment, including reasonable attorney's fees.

(b) A late charge not exceeding ten percent (10%) of the delinquent assessment or ten dollars (\$10.00), whichever is greater.

(c) Interest on all sums imposed in accordance with the section, including the delinquent assessment, reasonable costs of collection, and late charges, at an annual percentage rate not to exceed eighteen percent (18%) interest, commencing thirty days after the assessment becomes due. No Owner may waive or otherwise escape liability for the assessments provided for herein by nonuse of the Common Area or abandonment of his Lot.

7.03 Amendments. Prior to close of escrow on the sale of the first Unit, the Declarant may amend these Bylaws. After of sale of the first Lot, these Bylaws 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, which shall include a majority of the votes or written consent of Members other than the Declarant. However, the percentage of voting power necessary to amend a specific clause or provision shall not be less than the prescribed percentage of affirmative vote required for action to be taken under that clause.

7.04 Transfer of control from Declarant to Association. Within thirty (30) days after the Members other than the Declarant may elect a majority of members of the Board, the

Declarant shall deliver to the Association all property of the Members and the Association held by or controlled by the Declarant, including:

(a) The original or a certified copy of the recorded Declaration of Covenants, Conditions, and Restrictions and any amendments thereto; a copy of the filed Articles of Incorporation; a copy of the adopted Bylaws; minute books and other books and records of the Association; and any adopted Rules and Regulations of the Association;

(b) an accounting for money of the Association and financial statements from the date the Association received money to the date the period of the Declarant's control ends. The financial statements must fairly and accurately report with Association's financial condition prepared in accordance with generally accepted accounting principles.

(c) A complete study of the reserves of the Association, conducted by a person qualified by training and experience to conduct such a study. At the time the control of the Declarant ends, he shall deliver to the Association a reserve account that contains the Declarant's share of the amounts then due, and control of the account.

(d) Disclose, in writing, the amount by which he/she has subsidized the Association's dues on a per Unit basis.

(e) The Association's money or control thereof.

(f) All of the Declarant's tangible personal property that has been represented by the Declarant as property of the Association or, unless the Declarant has disclosed in the Public Offering Statement that all such personal property used in the Project will remain the Declarant's property, all of the Declarant's tangible personal property that is necessary for, and has been used exclusively in, the operation and enjoyment of the common elements, and inventories of the Project.

(g) A copy of any plans and specifications used in the construction of the improvements in the Project which were completed within two (2) years before the Declaration was recorded.

(h) Any renewable permits and approvals issued by governmental bodies applicable to the Project which are in force and any other permits and approvals so issued and applicable which are required by law to be kept on the premises of the Project.

(i) A roster of Owners of Lots and their addresses and telephone numbers, if known, as shown on the Declarant's records.

(m) Contracts of employment in which the Association is a contracting party.

(n) any contract for service in which the Association is a contracting party or in which the Association or the Members have any obligation to pay a fee to the persons performing the services.

7.05 Adoption of Rules of the Association. The Board of Directors shall adopt the Rules and Regulations of the Association and the Construction Rules and Regulations as follows:

The Rules and Regulations adopted by the Association:

1. Must be reasonably related to the purpose for which they are adopted.

2. Must be sufficiently explicit in their prohibition, direction or limitation to inform a Member, a tenant, or a guest of a Member of any action or omission required for compliance.

3. Must not be adopted to evade any obligation of the Association.

4. Must be consistent with the Governing Documents and must not arbitrarily restrict conduct or require the construction of any capital improvement by a Member that is not required by the Governing Documents of the Association

5. Must be uniformly enforced under the same or similar circumstances against all Members. Any rule that is not so uniformly enforced may not be enforced against any Member.

6. May be enforced by the assessment of a fine only if:

(a) The person alleged to have violated the rule has received notice of the alleged violation that informs him/her of the opportunity to request a hearing on the alleged violation.

(b) At least thirty (30) days before the alleged violation, the person alleged to have violated the rule was given written notice of the rule or any amendment to the rule.

7.06 Failure to Comply with Governing Documents. If a Member, a tenant, or a guest of a Member, does not comply with a provision of the Governing Documents of the Association, the Board of Directors may, if the Governing Documents so provide:

1. Prohibit, for a reasonable time, the Member, the tenant, or a guest of the Member, from:

(a) Voting on matters related to the common-interest community.

(b) Using the Common Elements/Association Property.

The Board of Directors may not prohibit the Member, the tenant, or a guest of the Member from using any vehicular or pedestrian ingress to or egress to go to or from the Lot including any area used for parking.

2. Require the Member, or the tenant or guest of the Member, to pay a fine for each failure to comply that does not threaten the health, and welfare of the common-interest community. The fine must be commensurate with the severity of the violation but must not exceed one hundred dollars (\$100.00) for each violation or a total amount of five hundred dollars (\$500.00), whichever is less.

3. If a fine is imposed pursuant to paragraph 2 and the violation is not cured within fourteen (14) days or a longer period as may be established by the Board of Directors, the violation shall be deemed a continuing violation. Thereafter, the Board of Directors may impose an additional fine for the violation for each seven (7) day period or portion thereof that the violation is not cured. Any additional fine may be imposed without notice and an opportunity to be heard.

7.07 Notice Requirements for Assessment for a Capital Improvement or Commencement of a Civil Action. The Association shall provide written notice to each Member of a meeting at which an assessment for a capital improvement or the commencement of a civil action is to be considered or action is to be taken on such assessment at least twenty-one (21) calendar days before the meeting. The Association may commence a civil action only upon a vote or written agreement of the Members to which a majority of the votes of the Members of the Association are allocated in the following circumstances:

(a) To enforce the payment of an assessment;

(b) To enforce the Declaration, Bylaws or rules of the Association;

(c) To proceed with a counterclaim; or

(d) To protect the health, safety and welfare of the Members of the Association. If a civil action is commenced pursuant to this paragraph without the required vote or agreement, the action must be ratified within ninety (90) days after the commencement of the action by a vote or written agreement of the Members to which at least a majority of votes of the Members of the Association are allocated. If the Association, after making a good faith effort, cannot obtain the required vote or agreement to commence or ratify such a civil action, the Association may thereafter seek to dismiss the action without prejudice for that reason only if a vote or written agreement of the Members to which a majority of votes of the Members are allocated was obtained at the time the approval to commence or ratify the action was sought.

At least ten (10) days before the Association commences or seeks to ratify the commencement of a civil action, the Association shall provide a written statement to all Members that includes:

(a) A reasonable estimate of the costs of the civil action, including attorney's fees;

(b) An explanation of the potential benefits of the civil action and the potential adverse consequences if the Association does not commence the action or if the outcome of the action is not favorable to the Association; and

(c) All disclosures that are required to be made upon the sale of the property.

No person, other than a Lot Owner, may request the dismissal of a civil action commenced by the Association on the ground that the Association failed to comply with any provision of this section.

7.08 Prohibition on Lien Foreclosure. The Association may not foreclose a lien by sale for the assessment of a fine for a violation of the Declaration Bylaws, rules or regulations of the Association, unless the violation is of a type that threatens the health and welfare of the residents of the common-interest community.

7.09 Notice of Fines. If the Association adopts a policy imposing a fine on a Lot Owner for the violation of the

Declaration, these Bylaws or other rules established by the Association, the Secretary shall prepare and cause to be hand-delivered or sent by prepaid mail, fax or email to the mailing address of each Lot or to any other mailing address designated in writing by the Lot Owner, a schedule of the fines that may be imposed for those violations.

7.10 Application of Assessment, Fee or Charge. The Association may not apply any assessment, fee or other charge that is paid by a Lot Owner toward a fine imposed by the Association against the Lot Owner.

7.11 Definition of the term "Emergency". The term "emergency", as used in these Bylaws, shall mean any occurrence or combination of occurrences that:

- (a) Could not have been reasonably foreseen;
- (b) Affects the health, welfare, and safety of the Unit Owner(s) of the Association;
- (c) Requires the immediate attention of, and possible action by, the Board of Directors; and

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

RATIFICATION

I, the undersigned, do hereby certify:

That I am the duly elected and the acting Secretary of the RANCHO CERRO HOMEOWNERS ASSOCIATION, a non-profit corporation.

That the foregoing Bylaws constitute the original Bylaws of said Association, as duly adopted at a special meeting of the Board of Directors of the Association held on the ____ day of _____, 200__.

IN WITNESS WHEREOF, I have hereunto subscribed my name this ____ day of _____, 200__.

Secretary