

BYLAWS
OF THE
STONELAKE MASTER ASSOCIATION

TABLE OF CONTENTS

		<u>Page</u>
ARTICLE 1	OFFICE	1
ARTICLE 2	DEFINITIONS	1
ARTICLE 3	VOTING RIGHTS IN ASSOCIATION	1
Section 3.1	Voting Rights	1
Section 3.2	Voting By Delegates	2
ARTICLE 4	MEMBERSHIP ASSESSMENTS AND LIEN RIGHTS	3
Section 4.1	Annual Assessments	3
Section 4.2	Special Assessments	3
Section 4.3	Lien Rights	3
Section 4.4	Payment of Assessments by Declarant and Merchant Builders	3
Section 4.5	Commencement of Annual Assessments	3
ARTICLE 5	MEMBERSHIP RIGHTS, PRIVILEGES AND PENALTIES	3
Section 5.1	Membership Rights and Privileges	3
Section 5.2	Penalties	4
Section 5.3	Transfer	4
ARTICLE 6	MEETINGS OF MASTER ASSOCIATION	5
Section 6.1	Place of Meeting	5
Section 6.2	Annual Meetings of Delegates	5
Section 6.3	Special Meeting	5
Section 6.4	Adjourned Meetings and Notice Thereof	6
Section 6.5	Mortgagee Representation	6
Section 6.6	Voting	6
Section 6.7	Quorum	7
Section 6.8	Consent of Absentees	7
Section 6.9	Action Without Meeting	7
Section 6.10	Proxies	8
Section 6.11	Ballots	8
ARTICLE 7	DIRECTORS	8
Section 7.1	Powers and Duties	8
Section 7.2	Number and Qualifications of Directors	8
Section 7.3	Election and Term of Office	8
Section 7.4	Vacancies	9

	<u>Page</u>
Section 7.5	Place of Meeting 10
Section 7.6	Organization Meeting 10
Section 7.7	Other Regular Meetings 10
Section 7.8	Special Meetings 11
Section 7.9	Compensation and Fees 11
Section 7.10	Attendance at Meetings and Executive Sessions 11
Section 7.11	Quorum 11
Section 7.12	Adjournment 11
Section 7.13	Waiver of Notice 12
Section 7.14	Entry of Notice 12
Section 7.15	Notice of Adjournment 12
Section 7.16	Action Without Meeting 12
ARTICLE 8	OFFICERS 12
Section 8.1	Officers 12
Section 8.2	Election 12
Section 8.3	Subordinate Officers 13
Section 8.4	Removal and Resignation 13
Section 8.5	Vacancies 13
Section 8.6	President 13
Section 8.7	Vice President 13
Section 8.8	Secretary 13
Section 8.9	Chief Financial Officer 14
ARTICLE 9	POWERS AND DUTIES OF THE MASTER
	ASSOCIATION 14
Section 9.1	Selection of Officers 14
Section 9.2	Management of Business 14
Section 9.3	Borrowing of Money 14
Section 9.4	Insurance 15
Section 9.5	Management of the Common Area 15
Section 9.6	Right to Contract 15
Section 9.7	Payment of Taxes on Common Area 16
Section 9.8	Adoption of Rules 16
Section 9.9	Adoption of Architectural Guidelines 17
Section 9.9	Right of Discipline 17
Section 9.10	Preparation of Budgets and Financial Statements 17
Section 9.11	Notification to Mortgagee in these Bylaws 17
Section 9.12	Notice to Federal Home Loan Mortgage Corporation 17
Section 9.13	Right to Litigate 17
Section 9.14	Right to Delegate 17
Section 9.15	Availability of Documentation 18

	<u>Page</u>
Section 9.16	Right to Grant Easements 18
Section 9.17	Authorization to Contract 18
Section 9.18	Duty to Make Records Available for Inspection 18
Section 9.19	Financial Statements 18
Section 9.20	Budget 19
Section 9.21	Checks 19
Section 9.22	Committees 19
ARTICLE 10	AMENDMENT 20
CERTIFICATE OF SECRETARY	21

**BYLAWS
OF THE
STONELAKE MASTER ASSOCIATION**

The provisions of these Bylaws are applicable to the residential master planned development project known as Stonelake, located in the County of Sacramento, California (the "Community"). All present or future Owners, tenants, future tenants, or their employees, or any other person that might use the facilities of the Community in any manner, are subject to the regulations set forth in these Bylaws, and as the same may be amended from time to time as herein provided. The mere acquisition, rental or occupancy of any of the Lots or Condominiums of the Community or use of the Common Areas and facilities (as Owner, lessee, invitee or otherwise) will signify that these Bylaws are accepted, ratified, and will be complied with. The provisions of the Amended and Restated Master Declaration of Establishment of Conditions, Covenants and Restrictions for Stonelake (the "Master Declaration") recorded in the County Recorder's Office of Sacramento County, as Instrument No. 200012060078, are hereby incorporated herein by this reference. In the event of a conflict between the provisions of these Bylaws and the provisions of said Master Declaration, the provisions of the Master Declaration shall prevail.

**ARTICLE 1
OFFICE**

The office of this Master Association shall be located in the County of Sacramento, State of California, or at the nearest office of the management company, if any, retained by the Association.

**ARTICLE 2
DEFINITIONS**

In addition to other definitions provided for herein, the terms used herein shall have the same meaning as the meanings attributed thereto in the Master Declaration.

**ARTICLE 3
VOTING RIGHTS IN ASSOCIATION**

Section 3.1 Voting Rights. The Master Association shall have three (3) classes of voting membership:

Class A. Initially, Class A Members shall be all Owners, with the exception of Declarant and the Merchant Builders, and shall be entitled to one (1) vote for each Lot or Condominium owned. When more than one (1) person holds an interest in any Lot or Condominium, all such persons shall be Members. The vote for such Lot or Condominium shall be exercised as the

Owners among themselves determine, but in no event shall more than one (1) vote be cast with respect to any Lot or Condominium.

Class B. The Class B member shall be Declarant and the Merchant Builders and shall be entitled to three (3) votes for each Lot or Condominium owned which is subject to assessment by the Master Association. The Class B membership shall cease and be converted to Class A membership on the happening of the earliest of the following to occur:

(a) Five (5) years from the date of the most recent conveyance of a subdivision interest in any Phase of the overall development under the authority of a Final Subdivision Public Report; or

(b) Twenty (20) years from the date of the first conveyance to a Class A Member of a subdivision interest in the first phase of the overall Properties.

Class C. In addition to the other memberships it may hold, Declarant shall be the sole Class C Member of the Master Association. The Class C membership shall be considered a part of the Master Association's voting power for the sole purpose of the Class C Member electing a majority of the directors of the Master Association, and references to "each class of membership" in these Bylaws or the Master Declaration or Articles of Incorporation shall not refer to Class C membership for any purpose other than election of directors of the Master Association. The directors shall be elected as set forth herein. The Class C membership shall forever cease on the happening of the earliest of the following to occur:

(a) Close of escrow for the sale to Class A Members of 75% of the total proposed Lots and Condominiums within the Community and the Annexable Property in accordance with the conditions of approval for the Community; or

(b) Five (5) years from the date of the most recent conveyance of a subdivision interest in any Phase of the overall development under the authority of a Final Subdivision Public Report; or

(c) Fifteen (15) years from the date of the first conveyance to a Class A Member of a subdivision interest in the first Phase of the overall development.

The Class C Member shall have the right to cause early termination of the Class C membership or to reduce the number of directors which the Class C Member is entitled to appoint by so notifying the Secretary of the Master Association in writing.

Section 3.2 Voting By Delegates. As set forth in Article IV of the Master Declaration, Delegates shall act on behalf of Declarant and all other Members of the Master Association in casting the votes of Members at all meetings of the Master Association, except as otherwise provided in the Master Declaration or the Bylaws. The manner in which each Delegate and alternate Delegate is elected, serves, and is replaced, the manner in which meetings of Members

in each Delegate District are called, noticed, held and conducted, the manner in which each Delegate shall cast the votes exercisable by such Delegate on behalf of the Members, the number of votes (voting power) held or represented by each Delegate, are set forth in the Master Declaration, and the provisions of the Master Declaration governing all such matters are expressly incorporated herein by this reference.

ARTICLE 4 **MEMBERSHIP ASSESSMENTS AND LIEN RIGHTS**

Section 4.1 Annual Assessments. The Board shall fix and determine from time to time annual assessments to be paid by each Owner for the purpose of operating, maintaining and repairing the Common Area, and for paying the necessary expenditures of the Master Association as provided in these Bylaws and the Master Declaration. The annual assessments shall include an adequate reserve fund for the periodic maintenance, repair, and replacement of the Common Areas as set forth in the Master Declaration.

Section 4.2 Special Assessments. In addition to the annual assessments authorized above, the Board may levy special assessments for the purpose of defraying, in whole or in part, the cost of any capital improvement to the Common Area, including the cost of major repair or rebuilding, to reimburse the Master Association for costs and expenses incurred in enforcing compliance by an Owner or his Lot or Condominium with the provisions of the Master Declaration, the Articles of Incorporation, Bylaws and Rules and Regulations adopted by the Board, or for such other purpose as set forth in the Master Declaration.

Section 4.3 Lien Rights. The provisions providing for the enforcement of liens and assessments by the Master Association are as set forth in the Master Declaration.

Section 4.4 Payment of Assessments by Declarant and Merchant Builders. The Declarant and the Merchant Builders shall pay all assessments levied by the Master Association against any Lot or Condominium owned by Declarant or the Merchant Builders at the same time, in the manner and in the same amounts as any other Owner.

Section 4.5 Commencement of Annual Assessments. The annual assessments shall commence as to all Lots or Condominiums in each phase of development of the Properties as set forth in the Master Declaration.

ARTICLE 5 **MEMBERSHIP RIGHTS, PRIVILEGES AND PENALTIES**

Section 5.1 Membership Rights and Privileges. No Member shall have the right to exercise any of the powers or to perform any of the acts by these Bylaws delegated to the Board without the prior approval of the Board as more fully provided in Article 7 of these Bylaws. Unless otherwise provided in the Master Declaration and subject to the Rules and Regulations adopted by the Board, each Member of the Master Association, his immediate family, guests and tenants

shall have the right to use and enjoy the Common Area. The membership rights and privileges, together with the voting rights of any Member, may be suspended by the Board for any period of time during which the assessment on his Lot or Condominium remains unpaid, and for a period not to exceed thirty (30) days for any infraction of the Master Association's published Rules and Regulations after reasonable written notice and an opportunity for a hearing before the Board. Should the Board believe grounds may exist for any such suspension, the Board shall give to the Member believed to be in violation at least fifteen (15) days prior written notice of the intended suspension and the reasons therefor. The Member shall be given an opportunity to be heard before the Board either orally or in writing not less than five (5) days before the effective date of suspension. The notice required hereby may be given by any method reasonably calculated to provide actual notice. Any notice given by mail must be given by first class or registered mail sent to the last address of the Member as shown on the Master Association's records. No such suspension shall affect the rights to access of such Member to his Lot or Condominium.

Section 5.2 Penalties. The Board of Directors may adopt Rules and Regulations imposing reasonable monetary penalties for any period of time during which any Member is determined by the Board to be in breach of the provisions of the Master Declaration or of these Bylaws. No such monetary penalty shall be effective unless the Member receives fifteen (15) days prior written notice of the proposed penalty and the reasons therefor and is given an opportunity to be heard either orally or in writing before the Board not less than five (5) days before the proposed effective date of the monetary penalty. The notice required hereby may be given by any method reasonably calculated to provide actual notice. Any notice given by mail must be given by first class or registered mail sent to the last address of the Member as shown on the Master Association's records. If any policy is adopted imposing a monetary penalty, including any fee, on any Member for a violation of the Master Declaration, the Articles, Bylaws or Rules and Regulations of the Master Association, including any monetary penalty relating to the activities of a guest or invitee of a Member, the Board shall adopt and distribute to each Member by personal delivery or first class mail, a schedule of the monetary penalties that may be assessed for those violations, which shall be in accordance with authorization for Member discipline contained in these Bylaws or the Master Declaration. The Board shall not be required to distribute any additional schedule of monetary penalties unless there are changes from the schedule that was adopted and distributed.

Section 5.3 Transfer. The Master Association membership held by any Owner of a Lot or Condominium shall not be transferred, pledged, or alienated in any way, except upon the sale or encumbrance of such Lot or Condominium. In the event of such sale or encumbrance, the Master Association membership may only be transferred, pledged or alienated to a bona fide purchaser of the Lot or Condominium, or to the mortgagee (or third-party purchaser) of such Lot or Condominium upon a foreclosure sale. Any attempt to make a prohibited transfer is void and will not be reflected upon the books and records of the Master Association.

ARTICLE 6
MEETINGS OF MASTER ASSOCIATION

Section 6.1 Place of Meeting. All meetings of Delegates shall be held at the Properties or at such other location in Sacramento County, California, in reasonable proximity to the Properties, as may be designated in the notice of meeting.

Section 6.2 Annual Meetings of Delegates. The first annual meeting of Delegates shall be held not later than six (6) months after the closing of the sale of the first subdivision interest pursuant to the first Final Subdivision Public Report. Subsequent annual meetings of Delegates shall be held on or near the annual anniversary of the first annual meeting of Delegates, as determined by the Board of Directors. An election of directors shall be held at the first annual meeting of Delegates and all positions of directors shall be filled at that election.

Written notice of each annual meeting shall be given to each Delegate and each Member and, upon written request therefor, to all first Mortgagees, either personally or by sending a copy of the notice by first class mail, or by registered or certified mail, return receipt requested, postage prepaid, or by reputable overnight delivery service, or by facsimile, to the address appearing on the books of the Master Association or supplied by the Owner to the Master Association for the purpose of notice. If no address is supplied, notice shall be deemed to have been given if mailed to the address of the Lot or Condominium owned by such Member or encumbered by the first Mortgagee, or published at least once in a newspaper of general circulation in the county of said principal office. All such notices shall be sent not less than ten (10) days and not more than ninety (90) days before each annual meeting, and shall specify the place, day and hour of such meeting. All Members shall be entitled to attend annual meetings of Delegates to the extent of the permissible capacity of the meeting room.

The notice to Members of any meeting of Delegates at which Directors are to be elected (i) must set forth the procedures for nominating candidates for the board, (ii) must specify that cumulative voting procedures must be followed for all elections of Directors where more than one vacancy is to be filled, (iii) may but need not specify a date for closing nomination of candidates, which date shall be identical for all Delegate Districts and not more than five (5) calendar days prior to the date of the meeting, and (iv) must state that nominations of candidates for the Board from the floor of the meeting of Delegates will not be permitted. Prior to the commencement of the meeting of Members within a Delegate District at which candidates for election to the Board are to be voted upon by Members, the Secretary of the Master Association shall furnish the chairman of the Delegate District membership meeting with a list of all Members whose names have been duly placed in nomination for election to the Board.

Section 6.3 Special Meeting. Special meetings of Delegates, for any purpose or purposes whatsoever, may be called at any time by the President, and shall be called promptly in response to the vote of a majority of a quorum of the Board, or by the written request of Delegates representing five percent (5%) or more of the voting power of the Members. Except in special

cases where other express provision is made by statute, notice of such special meetings shall be given by the Secretary not later than ten (10) days after such call by the President, adoption of such resolution by the Board, or receipt of such petition, in the same manner as for annual meetings of Delegates, and such special meeting shall be held not less than thirty (30) days nor more than sixty (60) days after the date of such call, adoption of such resolution, or receipt of such petition. Notices of any special meeting shall specify in addition to the place, day and hour of such meeting, and the general nature of the business to be transacted, and no business may be transacted at such meeting except as stated in the notice. Special meetings of Delegates shall be open to all Members to the extent of the permissible capacity of the meeting room.

Section 6.4 Adjourned Meetings and Notice Thereof. Any meeting of Delegates, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the voting power represented by Delegates present, but in the absence of a quorum no other business may be transacted at any such meeting.

Section 6.5 Mortgagee Representation. First Mortgagees shall have the right to attend all meetings of Delegates through a representative designated in writing and delivered to the Board.

Section 6.6 Voting. Voting of the Delegates shall be by written ballot as provided in the Master Declaration. All elections for directors shall be by secret written ballot. Cumulative voting is required for all elections in which more than one (1) director is to be elected. Under cumulative voting procedures, a Delegate may give one (1) candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which he is entitled, or may distribute his votes on the same principle among as many candidates as he shall see fit, subject to voting instructions from the Members represented by such Delegate. For example, if a full Board of five (5) Directors is to be chosen prior to the expiration of Class C Membership, the Class C Member shall first appoint its majority of three Directors, and the Delegates shall then elect the remaining two Directors using cumulative voting. The candidates receiving the highest number of votes up to the number of directors to be elected shall be elected. Unless the entire Board is removed from office by the vote of the Delegates, an individual director shall not be removed prior to the expiration of his term of office if the number of votes cast against his removal or not consenting in writing to his removal would be sufficient to elect the director if voted cumulatively at an election at which the same total number of votes were cast and the entire number of directors authorized at the time of the most recent election of directors were then being elected. Any director elected to office solely by the votes of Delegates representing Members other than Declarant as provided below may be removed from office prior to the expiration of his term only upon the vote of Delegates representing a simple majority of the voting power of Members other than Declarant. Until expiration of Class C Membership, any director appointed to office by the Class C Member may only be removed from office and the vacancy filled only by the Class C Member. Anything contained herein to the contrary notwithstanding, at the first election of directors and thereafter for so long as Declarant holds Class C Membership, or so long as there are at least two (2) outstanding classes of membership, not fewer than twenty percent (20%) of the directors shall

be elected solely by the voting power of Members other than Declarant. Delegates shall not have the right to nominate candidates from the floor for the office of director.

Section 6.7 Quorum. The presence in person or by proxy of a majority of the voting power entitled to vote at any meeting shall constitute a quorum for the transaction of business. 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 voting power to leave less than a quorum. In the event any meeting of Members cannot be held because a quorum is not present, the Members present, either in person or by proxy, may adjourn the meeting to a time not less than five (5) days nor more than thirty (30) days from the time of the original meeting date, at which meeting the quorum requirement shall be twenty-five percent (25%) of the voting power of the membership of the Master Association; provided, however, if after adjournment a new date is fixed for the adjourned meeting, notice of the time and place of the adjourned meeting shall be given to the Members in the manner prescribed for regular meetings; provided further, that in the event the quorum requirement becomes twenty-five percent (25%) of the voting power of the membership, then the only matters that may be voted upon at any meeting actually attended in person or by proxy by one-third (1/3) or less of the voting power are matters notice of the general nature of which was given in the notice of meeting.

Section 6.8 Consent of Absentees. The transactions of any meeting of Members, either annual or special, however called and noticed, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum be present either in person or by proxy and if, either before or after the meeting, each of the Members entitled to vote not present in person or by proxy, signs a written waiver of notice or a consent to the holding of such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 6.9 Action Without Meeting. Any action which may be taken at a meeting of Delegates, except the election of directors where cumulative voting is a requirement, may be taken without a meeting by written ballot of the Delegates. Ballots must be solicited in the same manner as provided in Section 6.2 above for giving notice of meetings of Delegates to Delegates and Members. Such solicitations must specify (i) the percentage of responses needed to meet the quorum requirements, (ii) the percentage of approving votes necessary to approve the proposed, (iii) the time by which the ballots must be received in order to be counted, and (iv) that in order to be effective, the ballots must contain the Delegate's certification of the information required pursuant to Section 4.3.5 of the Master Declaration. The Board of Directors may take action without a meeting if all of its members consent in writing to the actions to be taken. If the Board resolves by unanimous written consent to take an action, an explanation of the action to be taken shall be given by the Board to the Members of the Master Association within three (3) days after all written consents have been obtained in the manner provided in Article 7, Section 7.7 for the giving of notice of regular meeting of the Board. Such written consent or consents shall be filed with the minutes of the proceedings of the Board and

shall have the same force and effect as a unanimous vote of such directors. Any action so taken by the Board shall be posted in a prominent place within the Common Area within three (3) days after all of the written consents have been obtained.

Section 6.10 Proxies. Every person entitled to vote or execute consents shall have the right to do so either in person or by a written proxy executed by such person and filed with the Secretary of the Master Association. All proxies shall be revocable and shall automatically terminate upon transfer of title of a Lot or Condominium by the Owner.

Section 6.11 Ballots. Any form of proxy or written ballot distributed by any person to the membership of the Master Association shall afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon. It shall not be mandatory that a candidate for election to the Board be named in the proxy or written ballot. The proxy or written ballot shall provide that, where the Member specifies a choice, the vote shall be cast in accordance with that choice. The proxy shall also identify the person who is authorized to exercise the proxy and the length of time it will be valid.

ARTICLE 7 DIRECTORS

Section 7.1 Powers and Duties. The directors shall have the powers and duties set forth herein.

Section 7.2 Number and Qualifications of Directors. The Board shall consist of five (5) directors until changed by amendment to this section of the Bylaws. Any change in the authorized number of Directors shall be effective as of the annual meeting of Delegates immediately following the date of adoption of the amendment hereto making such change. All Directors, except those appointed and serving as first Directors, must be either (i) an Owner of a Lot or Condominium in the Properties, or (ii) an agent of Declarant or an agent of a Merchant Builder for so long as Declarant or a Merchant Builder owns a Lot or Condominium in the Properties or any portion of the Annexable Property.

Section 7.3 Election and Term of Office. At the first annual meeting of Delegates, the Delegates and the Class C Member shall select five (5) directors for staggered terms. Until termination of the Class C Membership, the Class C Member shall be entitled to elect a majority of the Directors. At the first annual meeting, the Class C Member shall elect two (2) directors for three (3) year terms and one (1) director for a two (2) year term. The Delegates representing Class A and Class B Members shall elect one (1) director for a two (2) year term and one director for a one (1) year term. Upon the expiration of each director's initial term, his or her successor shall be elected for a three (3) year term thereafter. If any annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of Delegates held for that purpose. All directors shall hold office until their successors are elected.

7.3.1 The incorporator of the Master Association shall have the right to elect its initial directors.

Section 7.4 Vacancies. A vacancy on the Board of Directors shall be deemed to exist in case of (i) the death, resignation or removal of any director, (ii) a director having been declared of unsound mind by order of court or convicted of a felony, (iii) a decision to increase the authorized number of directors, or (iv) failure of the Delegates to elect the full authorized number of directors to be voted for at any annual or special meeting of Delegates at which any director or directors are to be elected.

7.4.1 Except for directors appointed by the Declarant, the Board, by a majority vote of the directors who meet all of the required qualifications to be a director, may declare vacant the office of any director who commits any of the following acts:

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

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

(c) Fails to comply with the Association's governing documents having been provided proper notice and received a hearing on the matter at which the Board determines that a violation exists; or

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

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

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

(g) Addresses fellow directors with abusive language in a harmful or offensive manner. Abusive language is any language which causes humiliation and intimidation; or inflicts ridicule, coercion, threats, mental abuse or other language of a punitive nature; or in which prejudicial or grossly profane language is used.

7.4.1 Vacancies on the Board of Directors, except for a vacancy created by the removal of a director, may be filled by a majority vote of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected shall hold office until his successor is elected at an annual or a special meeting of the Delegates. A vacancy on the Board of Directors created by the removal of a director by Delegates representing the Class A and Class B Members may only be filled after obtaining the vote of Delegates representing a majority of a quorum of the Class A and Class B Members. Until termination of the Class C Membership, a vacancy in the office of a Director who was appointed by the Class C Member shall be filled only by an appointee of the Class C Member.

7.4.2 The Delegates (or the Class C Member, as applicable) may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors. Any such election shall require the consent of the holders of a majority of the outstanding memberships.

7.4.3 Any director may resign effective upon giving written notice to the president, the secretary or the Board of Directors of the Master Association, unless the notice specifies a later time for the effectiveness of such resignation. If the Board of Directors accepts the resignation of a director tendered to take effect at a future time, the Board or the Members shall have the power to elect a successor to take office when the resignation is to become effective.

7.4.4 No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office.

Section 7.5 Place of Meeting. All meetings of the Board shall ordinarily be held within the Community, unless same is impractical, in which case meetings shall be held as close as reasonably possible to the Community in the Board's discretion.

Section 7.6 Organization Meeting. Immediately following each annual meeting of Members, the Board shall hold a regular meeting for the purpose of organization, election of officers and the transaction of other business. Notice of such meeting is hereby dispensed with.

Section 7.7 Other Regular Meetings. Other regular meetings of the Board shall be held without call no less frequently than quarterly, at such time as the Board shall determine. Notice of all regular meetings shall be posted in a prominent place in the Common Area, and communicated to the directors, not less than four (4) days prior to the meeting; provided, however, notice of a meeting need not be given to any director who has signed a waiver of notice or a written consent to the 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 mail or delivery of the notice to each Lot and Condominium in the development, or by newsletter or similar means of communication. With respect to the Board, the term "meeting" shall include any congregation of a majority of the members of the Board at the same time and place to hear, discuss or deliberate upon any item of business scheduled to be heard by the Board, except those matters that may be discussed in Executive Session.

Section 7.8 Special Meetings. Special meetings of the Board for any purpose or purposes shall be called at any time by the President, or by any two (2) directors other than the President if there are circumstances that could not have been reasonably foreseen which require immediate attention and possible action by the Board, and which of necessity make it impractical to provide notice as required by Section 7.7 above.

Written notice of the time and place of special meetings and the nature of any special business to be considered shall be posted in the manner prescribed for notice of regular meetings and shall be sent or communicated to all directors by first class mail, or by registered or certified mail, return receipt requested, postage prepaid, not less than seventy-two (72) hours prior to the scheduled time of the meeting, or such notice shall be delivered personally or by telephone, facsimile, or by reputable overnight delivery service, not less than twenty-four (24) hours prior to the scheduled time of the meeting; provided, however, that notice of the meeting need not be given to any director who has signed a waiver of notice or a written consent to the holding of the meeting.

Section 7.9 Compensation and Fees. Neither the directors nor the officers of the Master Association shall receive any monetary compensation for their services performed in the conduct of business of the Master Association; provided, however, that the Board may cause a Member, officer, or director to be reimbursed for expenses incurred in carrying on the business of the Master Association.

Section 7.10 Attendance at Meetings and Executive Sessions. Regular and special meetings of the Board shall be governed by the provisions of Section 1363.05 of the Civil Code. Any matter discussed in Executive Session shall be generally noted in the minutes of the Board. The Board of Directors shall permit any Member to speak at any meeting of the Master Association or the Board, except for meetings of the Board held in Executive Session. A reasonable time limit for all Members to speak to the Board or before a meeting of Members shall be established by the Board.

Section 7.11 Quorum. A majority of the directors shall be necessary to constitute a quorum for the transaction of business, except to adjourn as hereinafter provided. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board.

Members of the Board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all Members participating in such meeting can hear one another. Participation in a meeting as permitted in the preceding sentence constitutes presence in person at such meeting. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of a director, provided that any action taken is approved by at least a majority of the required quorum for such meeting.

Section 7.12 Adjournment. A quorum of the directors may adjourn any Board meeting to meet again at a stated time and hour; provided, however, that in the absence of a quorum, a

majority of directors present at the Board meeting, either regular or special, may adjourn from time to time until the time fixed for the next regular meeting of the Board.

Section 7.13 Waiver of Notice. The transactions of any meeting of the Board, however called and noticed or wherever held, shall be as valid as though had at a meeting to be held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice or a consent to holding such meeting or an approval of the minutes thereof. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Nothing contained herein shall remove the obligation to post the notice of all Board meetings in the Common Area.

Section 7.14 Entry of Notice. Whenever any director has been absent from any special meeting of the Board, an entry in the minutes to the effect that notice has been duly given shall constitute a rebuttable presumption that due notice of such special meeting was given to such director as required by law and these Bylaws.

Section 7.15 Notice of Adjournment. Notice of any adjournment of any Board meeting, either regular or special, to another time or place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of the adjournment.

Section 7.16 Action Without Meeting. Any action by the Board of Directors may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board and shall have the same force and effect as a unanimous vote of such directors. Any action so taken by the Board shall be posted in a prominent place within the Common Area within three (3) days after all of the written consents 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.

ARTICLE 8 **OFFICERS**

Section 8.1 Officers. The officers of the Master Association shall be a President, a Vice President, a Secretary and a Chief Financial Officer. The Master Association may also have, at the discretion of the Board, one (1) or more Assistant Secretaries, one (1) or more Assistant Financial Officers and such other officers as may be appointed in accordance with the provisions of Section 8.3 of this Article. Officers other than the President need not be directors. One (1) person may hold two (2) or more offices, except those of President and Secretary.

Section 8.2 Election. The officers of the Master Association except such officers as may be appointed in accordance with the provisions of Section 8.3 or Section 8.5 of this Article 8, shall

be chosen annually by the Board, and each shall hold his office until he shall resign, or shall be removed or otherwise disqualified to serve, or his successor shall be elected and qualified.

Section 8.3 Subordinate Officers. The Board may appoint such other officers as the business of the Master Association may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the Bylaws or as the Board may from time to time determine.

Section 8.4 Removal and Resignation. Any officer may be removed, either with or without cause, by a majority of the directors at the time in office, at any regular or special meeting of the Board or, except in case of an officer chosen by the Board, by any officer upon whom such power or removal may be conferred by the Board. Any officer may resign at any time by giving written notice to the Board of Directors or to the President, or to the Secretary of the Master Association, without prejudice however, to the rights, if any, of the Master Association under any contract to which such officer is a party. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 8.5 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in the Bylaws for regular appointments to such office.

Section 8.6 President. The President shall be the chief executive officer of the Master Association, and subject to the control of the Board, shall have general supervision, direction and control of the business and officers of the Master Association. He shall preside at all meetings of the Members and at all meetings of the Board. He shall be ex officio a Member of all standing committees, including the Executive Committee, if any, and shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the Board or by the Bylaws. The president shall sign all leases, mortgages, deeds and other written instruments and shall co-sign all checks and promissory notes of the Master Association.

Section 8.7 Vice President. In the absence or disability of the President, the Vice President shall perform all the duties of the president, and when so acting shall have all powers of and be subject to all the restrictions upon the President. The Vice President shall have such other powers and perform such other duties as from time to time may be prescribed by the Board or by the Bylaws.

Section 8.8 Secretary. The Secretary shall keep, or cause to be kept, a book of minutes at the principal office or such other place as the Board may order of all meetings of directors and Members, with the time and place of holding, whether regular or special and if special, how authorized, the notice thereof given, the names of those present at Board meetings, the number of Members present or represented at Members' meetings and the proceedings thereof. The Secretary shall give, or cause to be given, notices of all the meetings of the Members and of the

Board required by the Bylaws or by law to be given, and he shall keep other powers and perform such other duties as may be prescribed by the Board or the Bylaws.

Section 8.9 Chief Financial Officer. The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the property and business transactions of the Master Association, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital and surplus. The books of account shall at all times be open to inspection by any director. The Chief Financial Officer shall co-sign all checks and promissory notes of the Master Association and shall deposit all monies and other valuables in the name and to the credit of the Master Association with such depositories as may be designated by the Board. He shall disburse the funds of the Master Association as may be ordered by the Board, shall render to the President and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the Master Association, and shall have such other powers and perform such other duties as may be prescribed by the Board or the Bylaws.

ARTICLE 9 POWERS AND DUTIES OF THE MASTER ASSOCIATION

Subject to the Master Declaration, the Articles of Incorporation, and the California Nonprofit Mutual Benefit Corporation Law, the Board of Directors shall have the following powers and duties:

Section 9.1 Selection of Officers. To select, supervise, and remove all the officers, agents and employees of the Master Association, prescribe such powers and duties for them as may not be inconsistent with law, the Articles of Incorporation, these Bylaws or the Master Declaration, and, subject to the provisions of Section 7.9 of Article 7 of these Bylaws, to fix their compensation.

Section 9.2 Management of Business. To conduct, manage and control the affairs and business of the Master Association, and to make such reasonable Rules and Regulations therefor not inconsistent with law, the Articles of Incorporation, these Bylaws or the Master Declaration as they deem best, including Rules and Regulations for the operation of the Common Area and the recreational facilities located therein. The Rules and Regulations as adopted, amended or repealed by the Board of Directors shall be mailed to each Member and posted at a conspicuous location in the Common Area.

Section 9.3 Borrowing of Money. To borrow money and incur indebtedness for the purposes of the Master Association, and to cause to be executed and delivered therefor, in the corporate name, promissory notes or other evidences of debt, and, with the vote or written assent of two-thirds (2/3) of the voting power of each class of members of the Master Association, (i) to hypothecate any or all of the real or personal property owned by the Master Association as real security for money borrowed or debts incurred, and (ii) to sell any real or personal property owned by the Master Association; provided, however, that no such vote or

written assent of Members shall be required with respect to any financing obtained or security given for the acquisition of The Club by the Master Association. After conversion of the Class B membership to Class A membership, the action herein requiring membership approval shall require the vote or written consent of two-thirds (2/3) of the voting power of members of the Master Association and, for so long only as the Declarant holds or directly controls twenty-five percent (25%) or more of the voting power of Members of the Master Association, two-thirds (2/3) or more of the voting power of Members of the Master Association other than Declarant.

Section 9.4 Insurance. To contract and pay for fire, casualty, liability, fidelity and other insurance adequately insuring the Master Association and Owners with respect to the Common Area and the affairs of the Master Association, which shall include bonding of the Members of any management body. Notwithstanding any provisions to the contrary herein, so long as the Federal National Mortgage Association ("FNMA") holds a Mortgage on a Lot or Condominium or owns a Lot or Condominium in the Properties, the Master Association shall continuously maintain in effect all casualty and liability insurance and fidelity bonds, meeting all requirements and containing such coverage and endorsements as may be required from time to time by FNMA.

Whether or not FNMA holds any Mortgage or owns any Lot or Condominium, fidelity insurance shall be in the form of a bond or insurance in an amount at least equal to the sum of three months' assessments on all Lots and Condominiums in the Community, which names the Master Association as obligee and protects against misuse and misappropriation of Master Association property by members of the Board, officers and employees, of the Master Association and any management agent and its employees whether or not any such persons are compensated for their services.

Section 9.5 Management of the Common Area. To manage, operate, maintain and repair the Common Area and all improvements located thereon, and to make capital expenditures for and on behalf of the Master Association, provided that capital expenditures in excess of five percent (5%) of the budgeted gross expenditures of the Master Association for the fiscal year may be made only with the vote or written assent of a majority of the voting power of each class of members of the Master Association; provided, however, that after conversion of the Class B membership to Class A membership, capital expenditures in excess of five percent (5%) of the budgeted gross expenses of the Master Association for the fiscal year shall require the vote or written assent of a majority of the voting power of members of the Master Association, and, for so long only as the Declarant holds or directly controls twenty-five percent (25%) or more of the voting power of members of the Master Association, a majority of the voting power of Members of the Master Association other than Declarant.

Section 9.6 Right to Contract. To contract and pay for goods and services relating to the Common Area, and to employ personnel necessary for the operation and maintenance of the same, including legal and accounting services; provided, however, that the term of any contract with a third person for supplying goods or services to the Common Area or for the Master Association shall not exceed a term of one (1) year unless a longer term is approved by a

majority of the Members constituting a quorum consisting of more than fifty percent (50%) of the voting power of each class of Members of the Master Association, or after conversion of the Class B membership to Class A membership, unless such longer term is approved by a majority of the Members constituting a quorum consisting of at least fifty percent (50%) of the voting power of Members of the Master Association, and a majority of the Members constituting a quorum consisting of at least fifty percent (50%) of the voting power of Members of the Master Association other than Declarant; except that a contract with a public utility company for materials or services the rates for which are regulated by the Public Utilities Commission may exceed a term of one (1) year so long as it does not exceed the shortest term for which the public utility will contract at the regulated rate, a contract for prepaid casualty and/or liability insurance policies may be for a term of not to exceed three (3) years, provided that the policy permits short rate cancellation by the Master Association, a management contract, the terms of which have been approved by the Federal Housing Administration or Veterans Administration may exceed a term of one (1) year, lease agreement for the lease of the Club facilities and improvements for a period of not more than ten (10) years, lease agreements for laundry room fixtures and equipment of not to exceed five (5) years duration provided that the lessor under the Agreement is not an entity in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more, agreements for cable television services and equipment or satellite dish television services and equipment of not to exceed five (5) years duration, agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services of not to exceed five (5) years duration, and contracts for a term not to exceed three (3) years that are terminable by the Master Association after no longer than one (1) year without cause, penalty or other obligation upon ninety (90) days written notice of termination to the other party. Anything contained herein to the contrary notwithstanding, the Board shall not terminate professional management of the Common Area and assume self-management without the prior written approval of Mortgagees holding seventy-five percent (75%) or more of the first Mortgages on Lots and Condominiums and any agreement for management of the Common Area and any other contract providing for services by the Declarant, shall be terminable for cause upon thirty (30) days written notice, and without cause or payment of a termination fee upon ninety (90) days, or fewer, written notice and shall have a term of not more than three (3) years, renewable with the consent of the Master Association and the management agent. Except as provided herein, no contract with the Master Association negotiated by Declarant shall exceed a term of one (1) year.

Section 9.7 Payment of Taxes on Common Area. To pay any taxes and governmental special assessments which are or could become a lien on the Common Area or any portion thereof.

Section 9.8 Adoption of Rules. To adopt reasonable Rules and Regulations not inconsistent with the provisions contained in the Master Declaration, and to amend the same from time to time relating to the use of the Common Area and the recreational facilities located therein.

Section 9.9 Adoption of Architectural Guidelines. To adopt Architectural Guidelines not inconsistent with the provisions contained in the Master Declaration, and to amend the same from time to time, relating to the installation, construction, alteration, maintenance and removal of improvements in the Community.

Section 9.9 Right of Discipline. To suspend the voting rights and right to use the recreational facilities located on the Common Area of a Member who is in default in the payment of any assessment for any period during which such assessment remains unpaid, and for a period not to exceed thirty (30) days for any infraction of the published Rules and Regulations after reasonable written notice and an opportunity for a hearing before the Board, as provided in Article 5 of these Bylaws.

Section 9.10 Preparation of Budgets and Financial Statements. To prepare budgets and financial statements for the Master Association as provided in these Bylaws.

Section 9.11 Notification to Mortgagee in these Bylaws. Upon the written request of the holder of any first Mortgage encumbering any Lot or Condominium, to notify the same in writing of any default specified in the Master Declaration, by the Owner of such Lot or Condominium in the performance of the Owner's obligations, which is not cured within thirty (30) days. In addition, upon the written request of the holder of any first Mortgage, to give timely written notice to such first Mortgagees of any substantial damage to or destruction of any Lot or Condominium, or any part of the Common Area and, if any Lot or Condominium or any portion thereof, or the Common Area or any portion thereof, is made the subject of any condemnation or eminent domain proceeding or is otherwise sought to be acquired by a condemning authority, to give timely written notice to such first Mortgagees of any such proceeding or proposed acquisition.

Section 9.12 Notice to Federal Home Loan Mortgage Corporation. To give notice in writing to the Federal Home Loan Mortgage Corporation ("FHLMC"), in care of the servicers of FHLMC loans on Lots or Condominiums, provided such servicers have informed the Master Association in writing of their addresses, of any loss to or taking of the Common Area if such loss or taking exceeds Ten Thousand Dollars (\$10,000.00), and of any damage to a Lot or Condominium if such damage exceeds One Thousand Dollars (\$1,000.00).

Section 9.13 Right to Litigate. To prosecute or defend, and to perform any act reasonably necessary to resolve by alternative dispute resolution proceedings, in the name of the Master Association, any action affecting or relating to the Common Area owned by the Master Association, and any action in which all or substantially all of the Owners have an interest.

Section 9.14 Right to Delegate. To delegate any of its powers hereunder to others, including committees, officers and employees.

Section 9.15 Availability of Documentation. To make available to any prospective purchaser of a Lot or Condominium, any owner of a Lot or Condominium, any first Mortgagee, and the holders, insurers and guarantors of a first Mortgage on any Lot or Condominium, current copies of the Master Declaration, the Articles, the Bylaws, the Rules and Regulations governing the Community and all other books, records and financial statements of the Master Association.

Section 9.16 Right to Grant Easements. To grant utility easements under, through and over the Common Areas which are reasonably necessary to the ongoing development and operation of the Community.

Section 9.17 Authorization to Contract. To authorize any officer or officers or agent or agents to enter into any contract or execute any instrument in the name and on behalf of the Master Association. Such authority may be general or confined to specific instances, and unless so authorized by the Board, no officer, agent or employee shall have any power or authority to bind the Master Association by any contract or credit or to render it liable for any purpose or for any amount.

Section 9.18 Duty to Make Records Available for Inspection. To keep in its principal office for the transaction of business or at such place within the Properties as the Board shall prescribe, the original or a copy of the Bylaws as amended or otherwise altered to date, certified by the Secretary, a membership register, including mailing addresses and telephone numbers, books of accounts and copies of minutes of all membership, Board and committee meetings, all of which shall be made available for inspection and copying by any Member of the Master Association, or by any Member's duly appointed representative and by all first Mortgagees, at any reasonable time and for a purpose reasonably related to his interest as a Member or Mortgagee. The Board shall establish reasonable rules with respect to:

- (a) Notice to be given to the custodian of the records by the Member or Mortgagee desiring to make the inspection;
- (b) Hours and days of the week when such an inspection may be made; and
- (c) Payment of the costs of reproducing copies of documents requested.

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

Section 9.19 Financial Statements. To cause to be prepared:

- (a) A financial statement (including a balance sheet and income and expense statement) of the affairs of the Master Association to be made as of the last day of the month closest in time to the date six (6) months following close of escrow for the sale of the first Lot

or Condominium by Declarant to an Owner. Said financial statement shall reflect the financial condition of the Master Association as of said date and shall summarize the financial transactions in which the Master Association was involved during the period between the close of the first sale and the date of the financial statement. The financial statement shall include a schedule of assessments received or receivable itemized by Lot and Condominium and shall include the name of the person or entity assessed. A copy of said financial statement shall be distributed personally or by mail to each of the Members of the Master Association and, upon written request, to all first Mortgagees, within sixty (60) days after the date of such financial statement.

(b) An annual report to be distributed within one hundred twenty (120) days after close of the Master Association's fiscal year as provided in Article 6 of the Master Declaration.

Section 9.20 Budget. To cause to be prepared and distributed a proforma operating statement ("Budget") for the Master Association to be prepared for the second and each succeeding fiscal year of the Master Association, as provided in Article 6 of the Master Declaration. The fiscal year of the Master Association is subject to change from time to time as the Board shall determine.

Section 9.21 Checks. To cause to be issued checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, in the name of or payable to the Master Association, which shall be signed or endorsed by the president and chief financial officer of the Master Association.

Section 9.22 Committees. By resolution adopted by a majority of the authorized number of directors, to designate an executive and other committee, to consist of two (2) or more directors, to serve at the pleasure of the Board. Unless the Board of Directors shall otherwise prescribe the manner of proceedings of any such committee, meetings of such committee will be regularly scheduled in advance or called at any time by any two (2) Members thereof; otherwise, the provisions of these Bylaws with respect to notice and conduct of meetings of the Board shall govern. Any such committee, to the extent provided in a resolution of the Board, shall have all of the authority of the Board, except with respect to:

- (a) The approval of any action for which the Nonprofit Mutual Benefit Corporation Law or the Master Declaration also require Member approval;
- (b) The filling of vacancies on the Board or in any committee;
- (c) The adoption, amendment or repeal of Bylaws;
- (d) The amendment or repeal of any resolution of the Board;
- (e) Any reassessment of Members' fees and charges; and
- (f) The appointment of other committees of the Board or the Members thereof.

ARTICLE 10
AMENDMENT


During the period of time prior to conversion of the Class B membership in the Master Association to Class A membership, new Bylaws may be adopted or these Bylaws may be amended or repealed by the vote of Delegates representing a majority or more of the voting power of the Master Association. After conversion of the Class B membership to Class A membership in the Master Association, these Bylaws may be amended or repealed by the vote of (i) Delegates representing Members entitled to exercise a majority of the voting power of the Master Association, and (ii) Delegates representing at least a majority of the voting power of Members of the Master Association other than Declarant. Anything herein stated to the contrary notwithstanding, no amendment to the Bylaws in the following areas shall be made without the prior written approval of Mortgagees holding at least seventy-five percent (75%) of the first mortgages encumbering Lots and Condominiums: termination of the Community, annexation of additional properties, dedication of Common Areas, voting and voting rights, partition, condemnation, and insurance. For so long as there remains a Class B membership in the Master Association, the Veterans Administration and the Federal Housing Administration shall have the right to veto any amendments to these Bylaws. Notwithstanding the foregoing, the percentage of Delegates representing the votes of Members, or the percentage of Delegates representing the votes of Members other than the Declarant, necessary to amend a specific provision in these Bylaws, shall not be less than the prescribed percentage of affirmative votes required for action to be taken under said provisions.

CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

1. That I am the duly elected and acting Secretary of the STONELAKE MASTER ASSOCIATION, a California nonprofit mutual benefit corporation; and
2. That the foregoing Bylaws, comprising 20 pages, including this page, constitute the Bylaws of said corporation duly adopted at the meeting of the Board of Directors thereof duly held on November 15, 2000.

IN WITNESS WHEREOF, I hereunto subscribe my hand and affix the seal of said corporation this 15th day of November, 2000.


Secretary