

BYLAWS
OF
MISSION HEIGHTS
HOMEOWNER'S ASSOCIATION

ARTICLE I
NAME and LOCATION

The name of the corporation is "Mission Heights Homeowner's Association hereinafter referred to as the "Association". This corporation is a non-profit mutual benefit corporation. The principal office of the association shall be located within the Project known as "Mission Heights" Parcel Map COAL 90-058, recorded in Book 50, Page 94 of Parcel Maps, located off of 19th and 20th Streets in the Community of San Miguel, County of San Luis Obispo, State of California or at such other place as may be designated by the Board.

ARTICLE II
DEFINITIONS

2.1 Incorporation/Association: The definitions contained in the Declaration are incorporated by reference herein.

2.2 Enabling Declaration: Shall mean and refer to the Master Declaration of Covenants, Conditions and Restrictions applicable to the property recorded on the 16th day of July, 2004 as Instrument No. 2004 062599 of Official Records and all subsequent Declaration of Annexations and Supplemental Restrictions more particularly described in Article I, Section 1.5 and Section 1.11 of the Master Declaration, thereto all to be recorded in the office of the County Recorder in the County of San Luis Obispo, and all subsequent amendments thereto.

ARTICLE III
MEETINGS AND VOTING

3.1 Annual/Regular Meeting: The first meeting of the members, whether a regular or special meeting, shall be held within forty-five (45) days after the closing of the sale of the project interest which represents the fifty-first (51st) percentile interest authorized for sale under the first public report for the Project, but in no event later than six (6) months after the close of escrow on the sale of the first subdivision interest in that phase. The next annual meeting shall be set by the Board to occur no later than ninety (90) days after the close of the Association's fiscal year. Subsequent regular annual meetings of the members shall be held within thirty (30) days of the same day of the same month of each year thereafter, at the hour specified by the Board. If the day of the annual meeting of the members is a legal holiday, the meeting will be held at the same hour on the first day following, which is not a holiday (excluding Saturday and Sunday). The next annual meeting shall be set by the Board to occur no later than ninety (90) days after the close of the Association's fiscal year. Subsequent annual meetings of the Members to be held within thirty (30) days or the same day of the same month of each year thereafter when the Board directs. If the day of the annual meeting of the Members is a legal holiday, the meeting will be held at the same hour on the first day following, which is not a legal holiday (excluding Saturday and Sunday).

3.2 Special Meetings: Special Meetings of the members of the Association shall be called at any time by a majority of a quorum of the members or may be called at any time by a majority of a quorum of the Board of Directors, or by the Chairman of the Board, The President, or upon written request of the members representing five percent (5%) of the total voting power of the Association. If the Association is the obligee under a bond or other arrangement to secure performance of the commitment of the Declarant to complete common area improvements which have not been completed prior to the close of escrow of the sale of the first Parcel, and the provisions of Article IX, Section 9.12 of the Declaration are applicable, a special meeting of members may be called in accordance with the provisions of Article IX, Section 9.12 of the Declaration, which provisions are incorporated herein by reference.

If the Association is an obligee under a bond or other arrangement to secure performance of the Declarant to pay Assessments on Parcels owned by Declarant, and the Assessments are delinquent for thirty (30) days,

and the provisions of the Declaration are applicable, a special meeting of the Members may be called in accordance with the provisions of the Declaration, which provisions are incorporated by reference herein.

3.3 Notice and Place of Meeting: Written notice of each meeting of the members shall be given by, or at the direction of, the secretary, by mailing a copy of such notice, first class mail, postage prepaid, at least ten (10) but not more than ninety (90) days before such meeting to each first lender requesting notice and to all members, addressed to the member's address last appearing on the books of the Association, or supplied by such member to the Association for the purpose of notice. Such notice shall specify the place, day and hour of the meeting, and in case of a special meeting, the purpose of the meeting. If action is proposed to be taken at any meeting for approval for any of the following proposals, the notice shall also state the general nature of the proposal(s): (a) removing a Director without cause; (b) filling vacancies in the Board of Directors by the members; (c) amending the Articles of Incorporation; (d) approving a contract or transaction in which a Director has a financial interest. Meetings to be conducted in accordance with the provisions of Section 1363 of the Civil Code.

3.4 Quorum: A quorum for the transaction of business at a meeting of members of the Association through presence in person or by proxy shall be established at not less than twenty-five (25%) percent and not more than of sixty-six and two-thirds (66-2/3%) percent of the total voting power of the Association, excluding the number of votes as to which voting rights are suspended at the time of the subject meeting shall constitute a quorum for any action except as otherwise provided in the Declaration or these Bylaws. If, however, such quorum shall not be present or represented at any meeting, a majority of the Members entitled to vote thereat shall have the power to adjourn the meeting to a date not less than five (5) days and not more than thirty (30) days later, without notice other than announcement at the meeting, until a quorum as aforesaid shall be present or represented.

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 twenty-five percent (25%) of the total voting power of the Association remains present in person and/or by proxy, and provided further that any action taken shall be approved by a majority of the Members required to constitute a quorum. If a time and place for the adjourned meeting is not fixed by those in attendance at the original meeting or if for any reason a new date is fixed for the adjourned meeting after adjournment, notice of the time and place of the adjourned meeting shall be given to Members in the manner prescribed for annual meetings.

Notwithstanding anything herein to the contrary, for purposes of obtaining membership approval of special Assessments or increases in annual Assessments as may be required by Article IV, Section 4.4 of the Master Declaration, a "quorum" means more than fifty percent (50%) of the Members of the Association.

Any meeting or election of the Association for purposes of complying with Section 4.4 of the Master Declaration shall be conducted in accordance with Chapter 5 (commencing with Section 7510) of Part 3, Division 2 of Title 1 of the Corporations Code and Section 7613 of the Corporations Code and Section 1366 of the Civil Code.

3.5 Proxies: At all meetings of Members, each Member may vote in person or by proxy. All proxies shall be in writing and filed with the Secretary before the appointed time of each meeting. Every proxy shall be revocable and shall automatically cease upon conveyance by the Member of his or her Parcel, or upon receipt of written notice by the Secretary of the Board of the death or judicially declared incompetence of a Member prior to the counting of the vote, or upon the expiration of eleven (11) months from the date of the proxy. Any form of proxy distributed by any person to the membership of the Association shall afford the opportunity to specify a choice, between approval and disapproval of each matter or group of matters to be acted upon. The proxy shall provide that, where the Member specifies a choice, the vote to be cast accordingly. The proxy shall also identify the person or persons authorized to exercise the proxy and the length of time it will be valid. In addition, voting by proxy shall comply with any other applicable requirements of California Corporations Code Sections 7514 and 7613.

3.6 Membership and Voting: The Membership shall be as provided for in the Declaration. The Association shall have two (2) classes of voting membership.

Class A: Class A Members shall be all Owners with the exception of the Declarant (as defined in the Declaration) and shall be entitled to one (1) vote for each Parcel owned. When more than one person holds

an interest in any Parcel, all such persons shall be Members. The vote for such Parcel shall be exercised as they among themselves determine, but in no event shall more than one (1) vote be cast with respect to any Parcel.

Class B: The Class B Member shall be the Declarant whose voting rights shall be the same as for Class A memberships, except the Class B Member may triple its votes for each Parcel owned. The Class B membership shall cease and shall be converted to Class A memberships upon the happening of either of the following events, whichever occurs earlier.

(a) When the total votes outstanding in the Class A membership equal the total votes (tripled as stated above) outstanding in the Class B membership; or

(b) A prescribed date which is not later than the second anniversary of the first conveyance of a subdivision interest in the original subdivision public report as to that phase.

Any action by the Association which must have the approval of the Members before being undertaken shall require the vote or written assent of a majority of each class of membership during the time that there are two (2) outstanding classes of membership. Where the vote or written assent of each class of membership is required, any requirement that the vote of the Declarant be excluded is not applicable, except as provided in Article IX, Section 9.12 of the Master Declaration. After the conversion of Class B membership to Class A membership, any provision herein requiring the approval of Members other than the Declarant, except as provided in Article IX, Section 9.12 of the Master Declaration, shall mean the vote or written assent of a majority of the total voting power of the Association (including the Declarant's votes) and the vote or written assent of a majority of the total voting power of the Members other than the Declarant.

3.7 Eligibility to Vote: Voting rights attributable to Parcels shall not vest until the Association has levied Assessments against those Parcels. Only members in good standing shall be entitled to vote on any issue or matter presented to the Members for approval. In order to be in good standing, a Member must be current in the payment of all Assessments levied against the Member's Parcels and not subject to any suspension of voting privileges as a result of any disciplinary proceeding conducted in accordance with the Declaration. A Member's good standing shall be determined as of the record date established in accordance with Article III Section 3.8 of this document. The governing instruments shall include provisions which authorize the governing body to impose monetary penalties, temporary suspensions of an Owner's rights as a member of the Association or other appropriate discipline for failure to comply with the governing instruments provided that the procedures for notice and hearing, satisfying the minimum requirements of Section 7341 of the Corporations Code, are followed with respect to the accused member before a decision to impose discipline is reached.

3.8 Record Dates:

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

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

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

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

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

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

3.8b(1) Record Date for Notice of Meetings: The record date for determining those Members entitled to receive notice of a meeting of Members shall be the business day preceding the day on which notice is given, or, if notice is waived, the business day preceding the day on which the meeting is held;

3.8b(2) Record Date for Voting: The record date for determining those Members entitled to vote at a meeting of Members shall be the day of the meeting, or in the case of an adjourned meeting, the of the adjourned meeting;

3.8b(3) Record Date for Action by Written Ballot Without Meeting: The record date for determining those Members entitled to vote by written ballot on proposed Association actions without a meeting, when no prior action by the Board has been taken, shall be the day on which the first written ballot is mailed or solicited. When prior action of the Board has been taken, it shall be the day on which the Board adopts the resolution relating to that action.

3.8b(4) Record Date for Other Lawful Action: The record date for determining those Members entitled to exercise any rights in respect to any other lawful action shall be Members at the close of the business day on which the Board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such other action, whichever is later.

3.8b(5) "Record Date" means as of the Close of Business: For purposes of this subparagraph b, a person holding a membership as of the close of business on the record date shall be deemed the Member of record.

3.9 Action Without Meeting: Any action that may be taken at any annual or special meeting of Members (except election of Directors) may be taken without a meeting in accordance with the provisions of California Corporations Code Sections 7513 and 7516. Any form of written ballot distributed by any person to the membership of the Association shall afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon, except it shall not be mandatory that a candidate for election to the Board be named in the written ballot. The written ballot shall provide that, where the Member specifies a choice, the vote shall be cast in accordance with that choice.

3.10 Conduct of Meetings: Meetings of the membership of the Association shall be conducted in accordance with a recognized system of parliamentary procedure or such parliamentary procedures as the Association may adopt. Notwithstanding any other provision of law, notice of meetings of the Members shall specify those matters the Board intends to present for action by the Members, but, except as otherwise provided by law, any proper matter may be presented at the meeting for action. Members of the Association shall have access to Association records in accordance with Article 3 (commencing with Section 8330) of Chapter 13 of Part 3 of Title 1 of the Corporations Code. Any Member of the Association may attend meetings of the Board, except when the Board adjourns to executive session to consider litigation, matters that relate to the formation of contracts with third parties, or personnel matters. Any matter discussed in executive session shall be generally noted in the minutes of the Board. In any matter relating to the discipline of an Association Member, the Board shall meet in executive session if requested by that Member and the Member shall be entitled to attend the executive session.

ARTICLE IV

BOARD OF DIRECTORS: SELECTION: TERM OF OFFICE

4.1 Number: The affairs of the Association shall be managed by a Board of three (3) directors, all of whom must be members of the Association, or an officer, director, employee or agent of a member, including Declarant. The initial directors shall be appointed by the Declarant and shall hold office until the first meeting of the members as described in Article III, Section 3.1 of this document and until successors are elected.

4.2 Term of Office: At the first meeting of the Association the members shall elect three (3) directors for the term of one (1) year, and at each annual meeting thereafter the members shall elect three (3) directors for a term of one (1) year. Unless vacated sooner, each Director shall hold office until the Director's term is expired and a successor is elected.

4.3 Removal and Vacancies: Unless the entire Board is removed from office by the vote of the Association Members, an individual Director shall not be removed prior to the expiration of his or her term of

office if the votes cast against his removal would be sufficient to elect him 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. A Director who was elected solely by the vote of Members other than the Declarant may be removed from office before the expiration of his term only by the vote of a majority of Members other than the Declarant. In case of death or resignation of a Director, the vacancy shall be filled by approval of the Board at a duly held meeting, or by the sole remaining Director. The successor Director shall serve for the unexpired term of his or her predecessor. The Members may elect a Director at any time to fill any vacancy not filled by the Directors. A vacancy created by the removal of a Director can be filled only by election of the Members.

4.4 Compensation: 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, if reasonable, as provided in Section 7.3D of this document.

4.5 Indemnification of Officers and Directors: The Association shall indemnify any present or former Director, Officer, Employee, Committee Member or other agent of the Association to the fullest extent authorized under California Corporations Code Section 7237, or any successor statute, and may advance to any such person funds to pay expenses that may be incurred in defending any action or proceeding on receipt of an undertaking by or on behalf of such person to repay such amount unless it is ultimately determined that such person was entitled to indemnification under this provision.

ARTICLE V NOMINATION AND ELECTION OF DIRECTORS

5.1 Nomination: a Nominating Committee shall make Nomination for election to the Board of Directors. Notice to the Members 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 member of the Board of Directors, and two (2) or more Members of the Association. The Nominating Committee shall be appointed by the Board of the Directors not less than thirty (30) days prior to each annual meeting of the Members, to serve until the close of such annual meeting. The Nominating Committee shall make as many nominations for election to the Board of Directors, but not less than the number of vacancies that are to be filled. All candidates shall have reasonable opportunity to communicate their qualification to Members and to solicit votes.

5.2 Election: The first election of the Board shall take place at the first meeting of the Association. 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 Declaration. The persons receiving the largest number of votes will be duly elected. All Members shall be entitled to cumulate his or her votes for one (1) or more candidates for the Board, 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 or her intention to cumulate votes. Voting for Directors shall be by secret written ballot. So long as a majority of the voting power of the Association resides in the Declarant, or so long as there are two (2) outstanding classes of membership in the Association, at least one (1) and not less than twenty percent (20%) of the incumbents on the Board shall have been elected solely by the votes of the Owners other than the Declarant, in accordance with the following special procedure. Declarant and ballots cast by other Members shall be collected separate between ballots cast. The ballots received from other Members shall be counted first, and the person receiving the greatest number of votes from such Members will be duly elected to the Board. The votes of Declarant shall then be added to the totals and the persons receiving the highest number of votes, (other than the person already elected), shall be elected to the remaining positions on the Board.

ARTICLE VI MEETING OF DIRECTORS

6.1 Regular Meetings: Regular meetings of the Board of Directors shall be held monthly or quarterly at such place within the project and at such hour as may be fixed from time to time by resolution of the Board. The meeting place shall be within the project unless in the judgment of the Board a larger meeting room is required than exists within the project in which case the meeting room selected shall be as close as reasonable

to the project. Should said meeting fall upon a legal holiday then that meeting shall be held at the same time on the next day which is not a legal holiday, excluding Saturday and Sunday. Notice of the time and place of meeting shall be posted at a prominent place within the common area and shall be communicated to Directors not less than four (4) days prior to the meeting, provided, however, that notice of a meeting need not be given to any Director who has signed a waiver of notice or a written consent to holding of the meeting.

6.2 Special Meetings: Special meetings of the Board of Directors shall be held when called by written notice signed by the President, Vice-President or Secretary of the Association, or by any two Directors. The notice shall specify the time and place of the meeting and the nature of any special business to be considered. The notice shall be given to each Director by one (1) of the following methods:

- (a) by personal delivery;
- (b) written notice by first class mail, postage prepaid;
- (c) by telephone communication, either directly to the Director or to a person at the Director's office who would reasonably be expected to communicate such notice promptly to the Director; or
- (d) by telegram, charges prepaid. All such notices shall be given or sent to the Director's address or telephone number as shown on the records of the Association. Such notice shall be posted or communicated in a manner prescribed for notice of regular meetings and shall be sent to all directors not less than seventy-two (72) hours prior to the scheduled time of the meeting. Notices sent by first class mail shall be deposited into United States mailbox at least four (4) days before the time set for the meeting. Notices given by personal delivery, telephone, or telegraph shall be delivered, telephoned, or given to the telegraph company at least seventy-two (72) hours before the time set for the meeting.

6.3 Quorum: A majority of the Directors then in office (but not less than two (2)) shall constitute a quorum for the transaction of business. 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 a majority of the required quorum for that meeting.

6.4 Open Meetings: All meetings of the Board shall be open to all members. The members shall have the right to participate in any discussion of the Board except for executive sessions unless expressly so authorized by a majority of a quorum of the Board.

6.5 Executive Session: All 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.

6.6 Telephone Meetings: Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all Directors participating in the meeting can hear one another, and all such Directors shall be deemed to be present in person at such meeting. 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 only of an easement or is unsuitable for posting the explanation of the action taken, the Board shall communicate said explanation by any means it deems appropriate.

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

6.8 Notice of Adjourned Meeting: Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four (24) hours, in which case personal notice of the time and place shall be given before the time of the adjourned meeting to the Directors who were not present at the time of adjournment, and shall be posted at a prominent place within the Common Area. If the Common Area consists only of an easement or is unsuitable for posting of such notice, the Board shall communicate the notice of the time and place of such meeting by any means it deems appropriate.

6.9 Action Without Meeting: Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all members of the Board, individually or collectively, consent in writing to the action. Such action by written consent shall have the same force and effect as a unanimous vote of the Board of Directors. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. 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 Board members have been obtained. If the Common Area consists only of an easement or is unsuitable for posting the explanation of the action taken, the Board shall communicate said explanation by any means it deems appropriate.

6.10 Emergency Meeting: All the above must be in compliance except when unforeseen circumstances require immediate attention and action by the Board. Any two members of the Board other than the President may call an emergency meeting, which may make it impracticable to provide notice as required in the above sections.

ARTICLE VII POWERS AND DUTIES OF THE BOARD OF DIRECTORS

7.1 Duties: It shall be the duty of the Board of Directors to:

7.1.a Maintenance: Maintain the project in accordance with Article V of the Master Declaration.

7.1.b Insurance: Maintain insurance as required by Article V of the Master Declaration.

7.1.c Discharge of Liens: Discharge of payment, if necessary, any lien against the common area and assess the cost thereof to the Member or Members responsible for the existence of said lien after notice and hearing as required by the Bylaws;

7.1.d Assessments: Fix, levy, collect and enforce assessments as set forth in Article IV of the Master Declaration;

7.1.e 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;

7.1.f Records: Cause to be kept a complete record of all its acts and business 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 (1/4) of the Class A members of the Association, keep adequate and correct books and records of account, minutes of proceedings of its members, Board and committees, and a record of its members, giving their names and addresses and classes of membership;

7.1.g Supervision: Supervise all officers, agents and employees of the Association to oversee that their duties are properly performed;

7.1.h Enforcement: Enforce the Bylaws and the Declaration;

7.1.i Review of Financial Records: Review on at least a quarterly basis a current reconciliation of the Association's operating and reserve accounts, the current year's actual reserve revenues and expenses compared to the current year's budget and an income and expense statement for the Association's operating and reserve accounts. In addition, the Board shall review the latest account statements prepared by the financial institutions where the Association has its operating and reserve accounts. For the purposes herein, "reserve accounts" shall mean monies that the Association's Board has identified for use to defray the future repair or replacement of, or additions to, those major components which the Association is obligated to maintain;

7.1.j Reserve Account Withdrawal Restrictions: Require that at least two (2) signatures be needed for the withdrawal of monies from the Association's reserve accounts, who shall either be members of the Board or one (1) member of the Board and one (1) officer who is not a member of the Board.

7.1.k Reserve Account Studies: The Board of Directors shall not expend funds designated as reserve funds for any purpose other those purposes set forth in Section 1365.5 of the Civil Code.

7.1.l Future Changes in Reserve Account Requirements: The provisions of subsections K and L incorporate the statutory requirements of California Civil Code Section 1365.5. If said Section 1365.5 is amended in any manner, this Section 7.1 shall be amended in the same manner without the necessity of amending the Master Declaration.

7.2 Powers: The Board of Directors shall have the power to:

7.2.a Manager: Employ a manager as provided in Article V of the Declaration;

7.2.b Adoption of Rules: Adopt rules in accordance with Article V of the Declaration;

7.2.c Assessments, Liens and Fines: Levy and collect assessments and impose fines as provided in Article IV of the Declaration;

7.2.d Enforcement (Notice and Hearing): Enforce these Bylaws and/or the Declaration provided that at least fifteen (15) days prior notice of any charges, other than assessments, or potential discipline or fine and the reasons therefore are given to the member affected, and that an opportunity is provided for the member to be heard, orally or in writing not less five (5) days before the imposition of the discipline or fine, said hearing to be before the Board. Any notice required herein shall be given by any method reasonably calculated to provide actual notice. Any notice given by mail shall be given by first class or registered mail sent to the last address of the member as shown on the Association's records.

7.2.e Contracts: Contract for goods and/or services in accordance with Article V of the Declaration.

7.2.f Delegation: The Board may delegate authority and powers to committees, officers, employees or a manager employed by the Association. The Board may not delegate to the manager the authority to make expenditures for capital additions or improvements chargeable against the reserve funds; to conduct hearing concerning compliance by an Owner or his tenant, lessee, guest or invitee with the Master Declaration or rules and regulations promulgated by the Board, or to make a decision to levy monetary fines, impose special assessments against individual parcels, temporarily suspend an Owner's rights as a member of the Association or otherwise impose discipline following any such hearing; or to make a decision to bring suit, record a claim of lien, or institute foreclosure proceedings for default in payment of assessments. The Board may delegate to a manager any of the its other duties, powers or functions. Any such delegation shall be revocable by the Board at any time. Any such manager may be either a person or a firm. The members of the Board, individually or collectively, shall not be liable for any omission or improper exercise by the manager of any such duty, power or function so delegated by written instrument executed by a majority of the Board.

7.2.g Appointment of Trustee: Appoint a trustee to enforce assessment liens by power of sale as provided in the Declaration and Civil Code Section 1367(b);

7.2.h Other Powers: In addition to any other power contained herein the Association may exercise the powers granted to a non-profit mutual benefit corporation as enumerated in Corporations Code Section 7140.

7.3 Prohibited Acts: The Board of Directors shall not take any of the following actions, except with assent, by vote at a meeting of the Association or by ballot without a meeting pursuant to Corporations Code Section 7513, of a simple majority of the members, other than the Declarant, constituting a quorum consisting of more than fifty percent (50%) of the voting power of the Association residing in member other than the Subdivider:

7.3.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:

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

7.3.a(2) A contact with a public utility company if the rates charged for materials or services are regulated by the Public Utilities Commission; provided, however, that the term of the contact shall not exceed the shortest term for which the supplier will contract at the regulated rate; and

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

7.3.a(4) Lease agreements for laundry room fixtures and equipment of not to exceed five (5) year's 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.

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

7.3.a(6) Agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services of not to exceed five (5) years duration provided that the supplier or suppliers are not entities in which the Subdivider has a direct or indirect ownership interest of ten percent (10%) or more.

7.3.b Incurring aggregate expenditures for capital improvements to the common area in any fiscal year more than five percent (5%) of the budgeted gross expenses of the Association for that fiscal year;

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

7.3.d Paying compensation to members of the Board 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 member or officer to be reimbursed for expenses incurred in carrying on the business of the Association.

ARTICLE VIII OFFICERS AND THEIR DUTIES

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

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

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

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

8.5 Resignation or Removal: The Board with or without cause may remove any officer from office. 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 later specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

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

8.7 Duties: The duties of the officers are as follows:

8.7.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 be co-signatory to all checks and promissory notes. The President shall have the general powers and duties of management usually vested in the office of the President of a California non-profit mutual benefit corporation, and shall have such powers and duties as may be prescribed by the Board or by these Bylaws.

8.7.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.

8.7.c Secretary: The Secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the members; serve notice of meetings of the Board and of the Members; keep appropriate current records showing the members of the Association together with the address, and shall perform such other duties as required by the Board.

8.7.d Chief Financial Officer: The Chief Financial Officer shall be obligated to maintain current all financial records. The records shall show all assessments or fees collected, the expenditures and reserves. The Chief Financial Officer shall make available for inspection by the membership as set forth in the Master Declaration and these Bylaws.

8.7.e Delegation: The foregoing duties may be delegated to a manager appointed by the Board.

ARTICLE IX COMMITTEE

9.1 Architectural Control: An Architectural Control Committee may be appointed as provided in the Declaration and a Nominating Committee as provided in these Bylaws. In addition; the Board of Directors shall appoint other committees as deemed appropriate in carrying out its purpose. No committee, regardless

of Board resolution, may: (a) take any final action on matters which under the Nonprofit Corporation Law of California also require Members' approval; (b) fill any vacancies on the Board of Directors or in any committee; (c) amend or repeal Bylaws or adopt new Bylaws; (d) amend or repeal any resolution of the Board of Directors; (e) appoint other committees of the Board of Directors or the members of those committees; (f) approve any transaction to which the Association is a party and one (1) or more Directors have a material financial interest.

ARTICLE X BOOKS AND RECORDS

10.1 Inspection by Members: The Declarant shall provide all recorded and unrecorded management documents listed below to the office of the Association, or at such other place as the Board shall prescribe and, all members not less than thirty (30) days but not more than ninety (90) days after the close of the first interest in the subdivision. The obligation to deliver the documents shall apply to any documents obtained by the Declarant no matter when obtained, provided, however, such obligation shall terminate upon the earlier of: (1) the conveyance of the last subdivision interest covered by the subdivision public report, or (2) three years after the expiration of the most recent public report, on the subdivision: (i) covenants, conditions and restrictions with any amendments and annexations, and (ii) bylaws, and (iii) articles of incorporation, and (iv) tract map, and (v) filed notices of completion or evidence of financial guarantees for the completion of the common areas/facilities, and (vi) any insurance policies for the benefit of the Association, and (vii) pro-forma budget, and (viii) deeds and easements conveying the common area to the association, to the extent applicable, and (ix) the membership register, including mailing addresses and telephone numbers, books of account and minutes of meetings of the members, of the Board and of committees of the Board of the Association.

10.1.a. The membership register, (including names, mailing addresses, telephone numbers and voting rights), books of account and minutes of meetings of the Members, of the Board (including drafts and summaries) [Civil Code Section 1363.05(d)] 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 office of the Association or at such other place within the Project as the Board shall prescribe. Board minutes shall be available to Members within thirty (30) days of the meeting, and shall be distributed to any Member upon request and upon reimbursement of the costs in making that distribution.

10.1.b. The Declarant shall provide all recorded and unrecorded management documents as listed below to the Association and all members not less than thirty (30) days but not more than ninety (90) days after the annexation of additional phases into the subdivision which are applicable to that phase: (i) covenants, conditions and restrictions with any amendments and annexations, and (ii) bylaws, and (iii) articles of incorporation, and (iv) tract map, and (v) filed notices of completion or evidence of financial guarantees for the completion of the common areas/facilities, and (vi) any insurance policies for the benefit of the Association, and (vii) pro-forma budget, and (viii) deeds and easements conveying the common area to the association, to the extent applicable, and (ix) the membership register, including mailing addresses and telephone numbers, books of account and minutes of meetings of the members of the Association and of committees of the Board of the Association. All the above items shall be delivered at the office of the Association, or at a place the Board prescribed. The obligation to deliver the documents shall apply to any documents obtained by the Declarant no matter when obtained, provided, however, such obligation shall terminate upon the earlier of (1) the conveyance of the last subdivision interest covered by the subdivision public report or (2) three years after the expiration of the most recent public report, on the subdivision.

10.2 Rules for Inspection: The Board shall establish reasonable rules with respect to the following:

10.2.a Notice to be given to the custodian of the records by the Member of the Association desiring to make the inspection;

10.2.b Hours and days of the week when such an inspection may be made;

10.2.c Payment of the cost of reproducing copies of documents requested by a member.

10.3 Directors' Rights To Inspect Books and Records: Every member of the governing body shall have the absolute right at any reasonable time to inspect all books, records and documents of the Association and the

physical properties owned or controlled by the Association. The right of inspection by a member of the governing body includes the right to make extracts and copies of documents; at the expense of the Association.

10.4 Documents Provided by the Board: Upon written request, the Board shall, within ten (10) days of the mailing or delivery of such request, provide the Owner with a copy of the governing documents of the Project, a copy of the most recent budget and financial statement for the Association, and a true statement in writing from an authorized representative of the Association as to the amount of the Association's current regular and special Assessments and fees, as well as any Assessments levied upon the Owner's interest which are unpaid on the date of the statement, including late charges, interests, and costs of collection, which, as of the date of the statement, are or may be made a lien upon the Owner's subdivision interests. The Board may impose a fee for providing such documents and statement, which may not exceed the reasonable cost to prepare and reproduce the requested documents.

**ARTICLE XI
MISCELLANEOUS**

11.1 Amendments: Before close of escrow on the sale of the first parcel, the Declarant may amend these Bylaws. After sale of the first parcel, these Bylaws may be amended only by the affirmative vote, in person or by proxy, or written consent of members representing a bare majority of a quorum of the Association and a bare majority of the votes or written consent of members other than the Declarant, or where the two (2) class voting system is still in effect, by vote of a bare majority of each class of members. However, the percentage of voting power necessary to amend a specific clause or provision shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause. If the two-class voting structure no longer exists due to the conversion of the one class to the other, the provisions for amending documents are as set forth under Article IX, Section 9.4 of the Master Declaration.

So long as the Federal Housing Administration (FHA) or Department of Veterans Affairs (DVA) has jurisdiction over any loan secured by a Deed of Trust on any parcel and as long as there is Class Membership, an amendment to these Bylaws shall require the prior approval of the FHA or the DVA.

11.2 Conflicts: In the case of any conflict between the Articles of Incorporation and the Bylaws, the articles shall control; and in the case of any conflict between the Master Declaration of Restrictions and the Bylaws, the Master Declaration of Restrictions shall control

11.3 Fiscal Year: The fiscal year of the Association shall begin on the first day of January and end on the thirty-first day of December of every year, except that the first fiscal year shall begin on the close of the first sale of a parcel.

I, the undersigned, acting Secretary of Mission Heights of San Miguel Homeowner's Association, a California non-profit Mutual Benefit Corporation, do hereby certify that the foregoing Bylaws were adopted as the Bylaws of the Association on this 19th day, of July, the year 2004, and that the same do now constitute the Bylaws of said corporation.

This certificate is executed under penalty of perjury on this 19th day, of July, the year 2004, in the City of Atascadero, County San Luis Obispo, State of California.

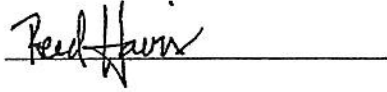
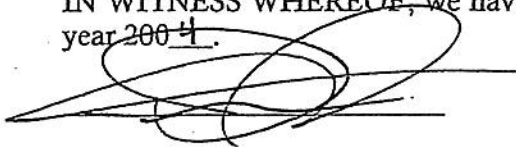

Secretary

We, the undersigned, being all of the Directors of Mission Heights of San Miguel Homeowner's Association, do hereby certify:

That we are entitled to exercise all of the voting power of said corporation.

That we hereby assent to the within and foregoing Bylaws and hereby adopt the same as the Bylaws of said corporation;

IN WITNESS WHEREOF, we have hereunto subscribed our names this 19th day of July, the year 2004.



Susan Jones

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