

PALOMINO HOMEOWNERS ASSOCIATION

BYLAWS

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BYLAWS
OF
PALOMINO HOMEOWNERS ASSOCIATION
ARTICLE I
GENERAL PROVISIONS

1.1 **Defined Terms.** Capitalized terms used in these Bylaws without definition shall have the meanings specified for such terms in the Declaration of Covenants, Conditions and Restrictions for PALOMINO recorded on May 10, 1996, with the County Recorder of Maricopa County, Arizona, Document Number 96-328128 (the "Declaration").

1.2 **Conflicting Provisions.** In the case of any conflict between the Articles and these Bylaws, the Articles shall control; and in the case of any conflict between the Declaration and these Bylaws, the Declaration shall control.

1.3 **Designation of Fiscal Year.** The fiscal year of the Association shall begin on the 1st day of January and end on the 31st day of December of every year, except that the first fiscal year shall begin on the date of incorporation of the Association.

1.4 **Books and Records.** The books, records and papers of the Association shall be available for inspection by any Member during reasonable business hours. The Project Documents shall be available for inspection by any Member during reasonable business hours at the principal office of the Association, where copies may be purchased at reasonable cost.

1.5 **Amendment.**

(A) These Bylaws may be amended, at a regular or special meeting of the Members, by a vote of the Members having a majority (more than 50%) of the votes entitled to be cast by the Members present in person or by proxy.

(B) So long as there is a Class B membership in the Association, the Declarant, without a vote of the Members and without the consent of any First Mortgagee, may amend these Bylaws in order to conform these Bylaws to the requirements or guidelines of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, The Federal Housing Administration, the Veterans Administration or any federal, state or local governmental agency whose approval of the Project, the Plat or the Project Documents is required by law or requested by the Declarant.

(C) So long as there is a Class B membership in the Association, any amendment of these Bylaws must to the extent required by applicable regulations of the Veterans

Administration and Federal Housing, be approved by the Veterans Administration or the Federal Housing Administration.

1.6 Indemnification. To the extent it has the power to do so under the Arizona Nonprofit Corporation Act, A.R.S. Section 10-1001, et seq., the Association shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the Association, by reason of the fact that he is or was a member, director, officer, employee or agent of the Association or is or was serving at the request of the Association as a member, director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, and against judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if his action or omission was made in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the Association and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Indemnification of any such person shall be made in accordance with the procedures set forth in the Arizona Nonprofit Corporation Act.

ARTICLE 2

MEETINGS OF MEMBERS

2.1 Annual Meeting. The first annual meeting of the Members shall be held within one (1) year of the date of incorporation of the Association at such time and place as may be set by the Board. An annual meeting of the Members shall be held at least once every twelve (12) months thereafter at such time and place as is determined by the Board.

2.2 Special Meetings. Special meetings of the Members may be called at any time by the President or by the Board or upon written request signed by Members having at least one-fourth (1/4) of the authorized votes in Class A of the Association membership which request shall be delivered to the President or Secretary.

2.3 Notice of Meetings. Written notice of each meeting of the Members shall be given by, or at the direction of, the Secretary or person authorized to call the meeting by mailing a copy of each notice, postage prepaid, at least fifteen (15) days before such meeting to each Member entitled to vote thereat 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 the case of a special meeting, the purpose of the meeting. By attending a meeting, a Member waives any right he may have had to object to the meeting on the basis that the proper notice of the meeting was not given in accordance with these Bylaws or the statutes of the State of Arizona.

2.4 Quorum. Except as otherwise provided in the Articles, the Declaration or these Bylaws, the presence in person or by proxy of Members entitled to cast one-tenth (1/10th) of the

total authorized votes in the Association shall constitute a quorum at all meetings of the Members. If a quorum shall not be present at any meeting, the Members entitled to vote thereat shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

2.5 Majority Vote. The vote of a majority of the Members at a meeting at which a quorum is present shall be binding upon all Members for all purposes except where a higher percentage vote is required by law, the Articles, the Declaration, or these Bylaws.

2.6 Proxies. At all meetings of the Members a vote may be cast in person or by proxy. A proxy may be granted by any Member in favor of only another Member, the Secretary of the Association, the Declarant, or the Member's mortgagee, duly executed in writing and it shall be valid only for the particular meeting designated in the proxy. All proxies must be filed with the Secretary or with the authorized managing agent prior to the commencement of the meeting for which the proxy is given. The proxy shall be deemed revoked only upon actual receipt by the person presiding over the meeting of a notice of revocation signed by the Member who granted the proxy. Except with respect to proxies in favor of a mortgagee, no proxy shall in any event be valid for a period in excess of 180 days after the execution thereof.

ARTICLE 3

BOARD OF DIRECTORS

3.1 Number. The affairs of this Association shall be initially managed by a board of three (3) directors, who need not be Members of the Association so long as there is a Class B membership in the Association. After the termination of the Class B membership, all directors must be Members of the Association. The Board may increase the number of directors on the board, but the number of directors must always be an odd number and shall not exceed seven (7) directors.

3.2 Term of Office. The initial members of the Board shall hold office until the first annual meeting of the Members and until their successors are elected and qualified. Commencing with the first annual meeting of the Members, the directors terms shall be staggered, a three (3) person Board shall consist of one (1) three (3) year term, one (1) two (2) year term and one (1) one (1) year term, a five person Board shall consist of one (1) three (3) year term, two (2) two (2) year terms and two (2) one (1) year terms, a seven person Board shall consist of two (2) three (3) year terms, three (3) two (2) year terms and two (2) one (1) year terms.

3.3 Removal. At any annual or special meeting of the Members duly called, any one or more of the members of the Board of Directors may be removed from the Board with or without cause by Members having more than fifty percent (50%) of the votes entitled to be cast by the Members present in person or by proxy at the meeting, and a successor may then and there be elected to fill the vacancy thereby created.

3.4 **Compensation.** No director shall receive compensation for any service he may render as a director. However, any director may be reimbursed for his actual expenses incurred in the performance of his duties.

3.5 **Action Taken Without a Meeting.** The directors shall have the right to take any action in the absence of a meeting which they could take at a meeting by obtaining the written consent of all the directors. Any such written consent shall be filed with the minutes of the proceedings of the Board.

3.6 **Vacancies.** Vacancies on the Board caused by any reason other than the removal of a director in accordance with the provisions of Section 3.3 of these Bylaws shall be filled by a majority vote of the remaining directors present at the first regular or special meeting of the Board held after the occurrence of such vacancy, even though the directors present at such meeting may constitute less than a quorum. Each person so elected shall serve the unexpired portion of the prior director's term.

3.7 **Regular Meetings.** Regular meetings of the Board may be held at such time and place as shall be determined from time to time by the Board. Such meetings shall be held at least once during each fiscal year.

3.8 **Special Meetings.** Special meetings of the Board may be called by the President on three (3) business days notice to each director, given in writing, by hand delivery, mail or telegraph, which notice shall state the time, place and purpose of the meeting. Special meetings of the Board shall be called by the President or Secretary in like manner and on like notice on the written request of at least two directors.

3.9 **Quorum.** A majority of the directors shall constitute a quorum for the transaction of business.

3.10 **Majority Vote.** Every act or decision done or 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.

3.11 **Powers and Duties.**

(A) The Board shall have all of the powers and duties necessary for the administration of the affairs of the Association and may do all such acts and things as are not by the Project Documents required to be exercised or done by the Members. In addition to the duties imposed by these Bylaws or by any resolution of the Members that may hereafter be adopted, the Board shall have the following powers and duties:

(1) Open bank accounts on behalf of the Association and designate the signatories thereon;

(2) Make, or contract for the making of, repairs, additions to, improvements to or alterations of the Common Area in accordance with the Project Documents,

after damage or destruction by fire or other casualty, or as a result of condemnation or eminent domain proceedings;

(3) In the exercise of its discretion, enforce by legal means the provisions of the Project Documents;

(4) Designate, hire and dismiss the personnel necessary for the maintenance, construction, operation, management, repair, and replacement of the Common Area and provide services for the Members, and, where appropriate, provide for the compensation of such personnel and for the purchase of equipment, supplies and material to be used by such personnel in the performance of their duties;

(5) Provide for the operation, care, upkeep and maintenance of all of the Common Area and borrow money on behalf of the Association when required in connection with the operation, upkeep and maintenance for said areas; provided, however, the consent of Members having at least two-thirds (2/3) of the total votes in the Association shall be obtained either in writing or at a meeting called and held for such purpose in accordance with the provisions of these Bylaws in order for the Association to borrow in excess of \$15,000;

(6) Prepare and adopt an annual budget for the Association prior to the commencement of each fiscal year;

(7) Adopt and publish rules and regulations governing the use of the Common Area and facilities and the personal conduct of the Members and their family members, guests, lessees and invitees thereon and establish penalties/fines per local State Statutes for the infraction thereof;

(8) Suspend the voting rights of a Member during any period in which such Member shall be in default in the payment of any Assessment or other amounts due under the terms of the Project Documents for a period of fifteen (15) days, and suspend the voting rights of a Member for a period not to exceed sixty (60) days for any infraction of the Project Documents;

(9) Exercise for the Association all powers, duties and authority vested in or delegated to the Association and not reserved to the membership by other provisions of the Project Documents;

(10) Declare the office of a member of the Board to be vacant in the event such member shall be absent from three (3) consecutive regular meetings of the Board;

(11) Employ, hire and dismiss such employees as they deem necessary and to prescribe their duties and their compensation;

(12) Cause to be kept a complete record of all its acts and corporate 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 any Member entitled to vote;

(13) Supervise all officers, agents and employees of the Association and see that their duties are properly performed;

(14) Levy and collect Assessments as provided in the Declaration;

(15) Issue, or cause an appropriate officer to issue upon demand to any person, a certificate setting forth whether or not any Assessment has been paid. A reasonable charge may be made by the Board for the issuance of these certificates. If a certificate states an Assessment has been paid, such certificate shall be conclusive evidence of such payment;

(16) Procure and maintain adequate property, liability and other insurance as required by the Declaration; and

(17) Cause all officers or employees having fiscal responsibilities to be bonded, as it may deem appropriate.

(B) The Board may employ for the Project a "Managing Agent" at a compensation established by the Board. The Managing Agent may either be an employee of the Association or an independent professional management company. The Managing Agent shall perform such duties and services as the Board shall authorize, including, but not limited to, all of the duties listed in the Declaration and these Bylaws except for such duties and services that under the Declaration may not be delegated to the Managing Agent. The Board may delegate to the Managing Agent all of the powers granted to the Board or the officers of the Association by the Declaration and these Bylaws other than the following powers:

(1) To adopt the annual budget, any amendment thereto or to levy Assessments;

(2) To adopt, repeal or amend Association Rules;

(3) To designate signatories on Association bank accounts;

(4) To borrow money on behalf of the Association.

(C) Any contract with the Managing Agent must provide that it may be terminated with cause and without payment of any penalty or termination fee on at least thirty (30) days written notice, and may be terminated without cause and without payment of any penalty or termination fee on at least ninety (90) days written notice. The term of any such contract may not exceed three (3) years.

ARTICLE 4

OFFICERS AND THEIR DUTIES

4.1 Enumeration of Officers. The principal officers of the Association shall be the President, the Vice-President, the Secretary, and the Treasurer, all of whom shall be elected by the Board. The President must be a member of the Board. Any other officers may, but need not, be members of the Board.

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

4.3 Term. The officers of the Association shall be elected annually by the Board and each shall hold office for the designated term, unless he shall sooner resign, or shall be removed or otherwise disqualified to serve. Terms shall be staggered, a three (3) person Board shall consist of one (1) three (3) year term, one (1) two (2) year term and one (1) one (1) year term, a five person Board shall consist of one (1) three (3) year term, two (2) two (2) year terms and two (2) one (1) year terms, a seven person Board shall consist of two (2) three (3) year terms, three (3) two (2) year terms and two (2) one (1) year terms.

4.4 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.

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

4.6 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.

4.7 Multiple Officers. Any two or more offices may be held simultaneously by the same person except the offices of President and Secretary.

4.8 Powers and Duties. To the extent such powers and duties are not assigned or delegated to a manager pursuant to Section 3.11(B) of these Bylaws, the powers and duties of the officers shall be as follows:

(A) **President.** The President shall be the chief executive officer of the Association; shall preside at all meetings of the Board or the Members; shall see that orders and resolutions of the Board are carried into effect; and have general and active management of the business of the Association;

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

(C) Secretary. The Secretary or authorized managing agent shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the Members; keep the corporate seal of the Association and affix it on all papers requiring said seal; serve notice of meetings of the Board and of the Members; keep appropriate current records showing the Members of the Association together with their addresses; and shall perform such other duties as required by the Board;

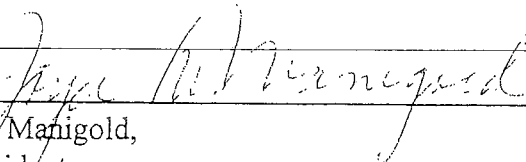
(D) Treasurer. The Treasurer or authorized managing agent shall receive and deposit in appropriate bank accounts all monies of the Association and shall disburse such funds for appropriate Association purposes as set forth in the Project Documents; keep proper books of account; and shall prepare an annual budget and a statement of income and expenditures to be presented to the membership at its regular annual meeting, and deliver a copy of each to the Members; and, in general, perform all the duties incident to the office of Treasurer.

CERTIFICATION

I hereby certify that the foregoing Bylaws were duly adopted by the Board of Directors of the Association on the 25 day of May, 1996.



Bob Crandall,
President



Joyce M. Manigold,
Vice President



N. Kelly House,
Secretary/Treasurer

