

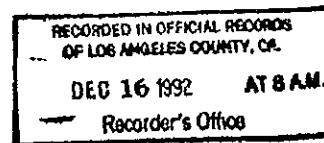
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**DECLARATION OF COVENANTS,
CONDITIONS, RESTRICTIONS AND EASEMENTS
FOR
STONEMAN COURT - TRACT NO. 49546
(A Condominium Project)**

[CCR.CS - 4-17-92]

4/21/08-LS

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EXECUTION PAGE

SUBORDINATION BY LIENHOLDER

EXHIBIT A - PROPERTY

**DECLARATION OF COVENANTS, CONDITIONS
RESTRICTIONS AND EASEMENTS FOR
STONEMAN COURT**

THIS DECLARATION is made this 25th day of JUNE,
1992, by FUDGE/VAN SCHAICK CORPORATION, a California corporation,
("Declarant").

RECITALS:

- A. Declarant is the owner of that certain real property ("Property") in the City of Alhambra, County of Los Angeles, State of California, as described in attached Exhibit "A".
- B. Declarant intends to develop the Property into a Condominium project under the provisions of California Civil Code Section 1350, et seq.
- C. The governmental entity with primary jurisdiction over this project is the City of Alhambra in the County of Los Angeles. The Association shall abide by codes and/or ordinances of the primary jurisdiction above stated and the State of California, and the Board of Directors shall be bound, in favor of the City of Alhambra, to the following covenants and conditions.

NOW, THEREFORE, Declarant hereby declares that the Property shall be held, conveyed, Mortgaged, encumbered, leased, rented, used, occupied, sold, and improved, subject to the following declarations, limitations, covenants, conditions, restrictions, liens, charges and easements, all of which are for the purpose of enhancing and protecting the value and attractiveness of the Property, and every part thereof, in accordance with the plan for the improvement of the Property and division thereof into Condominiums. All of the limitations, covenants, conditions, restrictions, and easements shall constitute equitable servitudes in accordance with Civil Code Section 1354 and shall be binding upon Declarant and its successors and assigns, and all parties having or acquiring any right, title or interest in or to any part of the Property.

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ARTICLE I

DEFINITIONS

The following definitions apply unless otherwise required by the context:

"Approval" - Prior written approval.

"Articles" - The Articles of Incorporation of the Association, including any amendments.

"Assessments" - All types of Association charges and Assessments levied against the Owners.

"Association" - The Stoneman Court-Alhambra Homeowners Association, Inc., California nonprofit mutual benefit corporation formed (or to be formed) to govern the Project, its successors and assigns, including its agents, the Board or any committee as applicable.

"Board" or "Board of Directors" - The Board of Directors of the Association.

"Bylaws" - The Bylaws of the Association, including any amendments.

"Common Area(s)" - The entire Property (including structures, land and improvements) other than the Units described in this Declaration and the Condominium Plan.

"Common Expenses" - The actual and estimated expenses of the Association in performing its duties as set forth in the Governing Documents.

"Condominium" - An estate in real property (defined in Sections 783 and 1351(f) of the California Civil Code) consisting of both:

- (a) A separate interest in space called a "Unit"; and
- (b) An undivided interest in the Common Area appurtenant to each Unit.

"Condominium Building" - A building or structure containing any portion of any Condominium Unit(s).

"Condominium Plan" - The recorded diagrammatic floor plan of the Units built or to be built on the Property which identifies each Unit and shows its dimensions pursuant to California Civil Code Section 1351(e).

"Declarant" - The person(s) or entity identified in the introductory paragraph of this Declaration; also, Declarant's successors and assigns, if specifically granted such authority by official instrument recorded in the Office of the County Recorder.

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"Declaration" - This instrument and any amendments.

"DRE" - The California Department of Real Estate and any successors thereto.

"Eligible First Mortgagees" - Holders of First Mortgages who have requested the Association to notify them of specified proposals and changes to the Governing Documents.

"Exclusive Use Common Area" - Those portions of a Common Area designated by the Declaration, and/or Condominium Plan or by law for the exclusive or restricted use of the Owners of particular designated Units.

"FHA" - The Federal Housing Administration of the United States Department of Housing and Urban Development and any department or agency of the United States government which succeeds to the FHA's function of insuring notes secured by mortgages on residential real estate.

"FHLMC" - The Federal Home Loan Mortgage Corporation (also known as The Mortgage Corporation) created by Title II of the Emergency Home Finance Act of 1970, and any successors to such corporation.

"FNMA" - The Federal National Mortgage Association, a government-sponsored private corporation established pursuant to Title VIII of the Housing and Urban Development Act of 1968, and any successors to such corporation.

"Governing Documents" - All documents governing the Property, including this Declaration, the Articles, Bylaws, Condominium Plan and any Rules and Regulations.

"GNMA" - The Government National Mortgage Association administered by the United States Department of Housing and Urban Development, and any successors to such association.

"Institutional Lender" - Any bank, savings and loan association, insurance company, real estate investment trust, retirement fund trust, or other financial institution holding a recorded first Mortgage on any Condominium.

"Manager" or "Managing Agent" - The person(s), firm or corporation contractually engaged by the Association or Declarant and charged with the management of the Common Area(s) and the performance of other duties of the Association as provided for in this Declaration.

"Member" - Any person who is an Owner and a Member of the Association based upon the provisions of the Governing Documents.

"Mortgage" - A Mortgage or deed of trust.

"Mortgages" - A Mortgagee, beneficiary or holder of a deed of trust.

"Mortgagor" - A Mortgagor or trustor of a deed of trust.

"Notice and a Hearing" - A notice of time and an opportunity for a hearing as provided for in the Governing Documents.

"Occupant" - An Owner, resident, guest, invitee, tenant, lessee, sublessee, or other person in possession.

"Owner" or "Owners" - The person(s) or legal entity holding a fee simple interest in a Unit, or the purchaser(s) of a Unit under an executory contract of sale. "Owner" does not include any person or entity having an interest in a Unit merely as security for the performance of an obligation.

"Person" - A person, partnership, corporation, trustee or other legal entity.

"Project" - That portion of the real property described in Paragraph "A" of the Recitals to this Declaration, which is divided or to be divided into Condominiums, including the Common Area and the Units therein. The Project is a "Condominium Project" as defined in Section 1351(f) of the California Civil Code.

"Property" - The real property described in Paragraph "A" of the Recitals to this Declaration, and any improvements constructed upon it at any time. The Property is a "Common Interest Development" as defined in Section 1351(c) of the California Civil Code.

"Restrictions" - All of the terms, provisions and restrictions set forth in the Governing Documents.

"Rules and Regulations" - The rules as established and adopted from time to time by the Board as provided for in this Declaration.

"Unit" - The elements of a Condominium not owned in common with other Owners as defined in California Civil Code Section 1351(f). Each Unit is designated as a Unit in the Condominium Plan for the Property and is separately identified.

"VA" - The Department of Veterans Affairs of the United States and any department or agency of the federal government which succeeds to VA's function of issuing guarantees of notes secured by Mortgages on residential real estate.

ARTICLE II
DESCRIPTION OF PROPERTY
DIVISION OF PROPERTY

The Condominium Property consists of Units and Common Area(s) (including Exclusive Use Common Areas).

2.01 Units.

- (a) Each Unit consists of all elements and areas identified as such on the Condominium Plan.
- (b) Existing physical Unit boundaries (re)constructed in substantial accordance with the original plans will be the presumed boundaries (rather than the figures in the deed or Condominium Plan) regardless of a building's settling, lateral movement or other minor variance.
- (c) Any Condominium conveyed while a structure(s) shown on the Condominium Plan has not yet been built will be deemed to have the boundaries shown on the Condominium Plan, subject to paragraph (b) above.

2.02 Common Area(s).

The Property not constituting the Units is the Common Area.

Each Unit Owner will receive the following undivided interest in the Common Area: one/sixteenth (1/16).

2.03 Exclusive Use Common Area(s).

- (a) Declarant hereby allocates and reserves Exclusive Use Common Areas, if any, as shown on the Condominium Plan for the exclusive use of the appurtenant Unit.
- (b) Internal and external telephone wiring designed to serve a Unit (located outside Unit boundaries) are Exclusive Use Common Area(s) pursuant to Civil Code Section 1351(i)(2) allocated exclusively to the relevant Unit.
- (c) Use of the Exclusive Use Common Area(s) are subject to reasonable restrictions contained in any Governing Documents.

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- (d) Exterior surfaces (perimeter walls, floors, windows and doors) adjoining any Exclusive Use Common Area(s):
 - (1) Constitutes a portion of the Exclusive Use Common Area boundary; but
 - (2) Do not constitute a part of the Exclusive Use Common Area itself.
 - (e) Any other Exclusive Use Common Area(s) are as shown on the Condominium Plan.

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ARTICLE III

OWNERS GENERAL USE RESTRICTIONS

3.01 Unit Use.

- (a) Each Unit shall be used solely as a private residential dwelling and for no other purpose, subject to rights reserved herein by Declarant for development of the Property.
- (b) An Owner may rent a Unit for single family residential purposes provided:
 - (1) There is a written agreement;
 - (2) The rental term is longer than thirty (30) days; and
 - (3) The lease states it is subject to all the provisions of the Governing Documents.
- (c) Occupations and businesses that do not interfere with the residential nature or character of the Property or quiet enjoyment by other Owners may be carried on within a Unit, provided that all applicable laws, ordinances, zoning regulations and rules are satisfied and that there is no external evidence of any such occupation.

3.02 Common Area Use.

Common Area(s) and Exclusive Use Common Area(s) may only be used for purposes which are compatible with usages customarily associated with common areas located within residential developments in California, and subject to the limitations described in this Declaration and other Governing Documents.

3.03 Nuisances.

- (a) Illegal, offensive, obnoxious actions, or noxious odors that interfere with any Occupant's quiet enjoyment, or may impair the structural integrity of any building, are not permitted anywhere on the Property.
- (b) An Occupant may not cause the level of noise or sound from the Unit to interfere with the quiet enjoyment of an Occupant of another Unit (i.e., loud music or television, shouting, slamming of doors, and other such actions.)
- (c) The Board shall have the right to determine if any action, odor, noise or other conduct constitutes a nuisance, and to appropriately deal with the situation.

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- (d) The City of Alhambra may undertake and complete such corrective measures as are necessary to remedy a public nuisance on the property and assess the cost thereof against the Association as a lien in accordance with the provisions of the Alhambra Municipal Code relating to the abatement of public nuisances.

3.04 Exterior Clothes Lines.

Exterior clothes lines may not be erected and clothes may not be dried out-of-doors.

3.05 Exterior Apparatus Regulations.

Electrical or telephone wiring, antennas, air-conditioning units, etc., are not permitted to protrude through the exterior walls or roof, unless authorized by the Board.

3.06 Window Covers.

Newspaper, aluminum foil, paper, lettering or similar materials may not be used as window coverings.

3.07 Debris, Trash and Refuse.

- (a) Weeds, rubbish, debris, objects or materials of any kind that are unsanitary, unsightly, or offensive may not be placed or permitted to accumulate in any Unit or the Common Area(s).
- (b) Rubbish or storage containers, woodpiles, machinery, equipment and other unsightly objects are prohibited if they can be seen from other Units or Common Area(s).
- (c) Rubbish containers may be placed temporarily for pick-up (subject to the Rules and Regulations).
- (d) Owners must prevent their vehicles from dripping oil on the driveways and other Common Areas.

3.08 Signs.

- (a) The Declarant may erect and maintain any signs, advertising devices or structures to conduct development, improvement, subdivision, sale or leasing operations on the Property for up to three (3) years from the date of the first conveyance after issuance of the original DRE public report (as long as the activities do not unreasonably interfere with any Owner's use of the Property).

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- (b) Subject to Civil Code Sections 712 and 713, and any local ordinance, an Owner may advertise a Condominium for sale or lease with one (1) real estate sign with a standard format previously approved by the Board, and with a maximum face area of six (6) square feet, and placed in a location approved by the Board.
 - (c) The display of any sign of any kind displaying or advertising any service, business or other commercial project or venture in the development is prohibited. No other sign, poster, display, or advertising device may be displayed anywhere on the Property visible outside a Unit without the prior written consent of the Board.

3.09 Use Affecting Insurance Rates.

- (a) Acts that threaten cancellation or an increase of insurance rates for the Property may not be committed without Board approval.
- (b) If a particular Owner's occupancy is the cause of increased insurance rates, the responsible Owner is personally liable for the additional insurance premiums.

3.10 Rights Reserved by Declarant.

While any Unit remains unsold and for no longer than three (3) years from the date of recordation of this Declaration (and without unreasonably interfering with other Owners), the Declarant has authority to do the following:

- (a) Complete excavation, grading and construction of improvements on the Property, or to alter the foregoing or its construction plans and designs on any Common Areas, or on any portion of the Property owned solely or partially by Declarant. Any such alteration by Declarant shall require prior approval of VA and FHA if such alteration is inconsistent with the general plan of development of the Property previously submitted to and approved by the VA and FHA;
- (b) Use any unsold Unit or Model Unit as a construction, real estate sales, leasing or decoration office;
- (c) Use the Common Area(s) as reasonably needed for ingress, egress, development, sales and construction purposes; and
- (d) Construct additional improvements Declarant deems advisable in the cause of development of the Property.

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3.11 California Vehicle Code.

All applicable provisions of the California Vehicle Code will be enforced on any private streets on the Property in accordance with California Vehicle Code Section 22658.2 (or successor statute).

3.12 Animal Regulations.

- (a) A maximum of two (2) ordinary household pets (such as domestic dogs, cats, birds) may be kept, provided they are not kept, bred or raised for commercial purposes and they are kept under reasonable control at all times.
- (b) Animals that bother or annoy other Owners or residents (e.g., excessively barking dogs) may not be kept on the Property or in a Unit.
- (c) A dog may only enter the Common Area(s) while on a leash which is held by a person capable of controlling it.
- (d) Owners must prevent their pets from soiling the Common Area(s), and are solely responsible for any required clean-up.

3.13 Parking and Vehicle Restrictions.

- (a) The Association may establish parking Rules and Regulations, including the establishment of "parking", "no parking" and "guest parking" areas within the Property.
- (b) The Association has the right and obligation to enforce all parking restrictions and to remove any violating vehicles in accordance with the California Vehicle Code, or other applicable laws.
- (c) The relevant City or County has the right (but not the duty) to enforce parking restrictions in accordance with the California Vehicle Code and all other applicable laws.
- (d) Only passenger motor vehicles may be parked in the parking spaces.
- (e) Restoring or repairing vehicles on the Property, or any repair activity the Association deems a nuisance is not permitted at any time.
- (f) Buses, trailers, campers, boats, watercraft, mobile homes, recreational vehicles, inoperable vehicles, and the like, or any vehicle the Association deems a nuisance are not permitted on the Property.
- (g) Garage doors, if any, may not be left open, except as temporarily necessary or while used for exiting or entering.

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- (h) Each Unit shall have the exclusive right to use not less than two (2) designated parking spaces of the kind required by the Alhambra Municipal Code.

3.14 Repair and Maintenance by Owner.

- (a) In accordance with the Governing Documents, each Owner must maintain and repair all of the following:
- (1) All of the Owner's Unit in a clean, sanitary and attractive condition;
 - (2) The Unit's Exclusive Use Common Area(s), if any, in a clean, sanitary and attractive condition;
 - (3) The interior and exterior surfaces of all Unit windows in good, clean condition. Any window replacement must be with similar glass color and quality to the window glass supplied with the Unit;
 - (4) Any hot water heater that solely and exclusively services the Owner's Unit;
 - (5) Any air conditioning equipment that solely and exclusively serves the Owner's Unit; and
 - (6) Any damage to the Common Area(s) caused by an Owner, his family or guest, even if the damage is to an area otherwise maintained by the Association. All the repairs shall be subject to prior approval of the Architectural Committee.
- (b) Except as otherwise provided herein, each Owner has the exclusive right to paint, wallpaper or otherwise furnish and decorate the interior surfaces of the walls, partitions, ceilings, floors, and doors within the Unit (including furniture and furnishings), without prior approval of the Architectural Committee. The type and color of all exposed window coverings shall be subject to the prior written approval of the Architectural Committee.
- (c) An Owner may not do anything that unreasonably increases the level of noise. If an Owner does anything to the Unit that may increase the level of noise or sound that can be heard outside the Unit during normal use and occupancy of the Unit (for example, replacing carpeting with tile or other hard surface), the Owner must take all reasonable measures (at own expense) to deaden, insulate or otherwise decrease the level of such noise to the minimum level reasonably possible.
- (d) If a patio, balcony or deck adjoins a Unit, the Owner's rights and responsibilities are as follows:
- (1) Owner must maintain the patio, balcony or deck in a clean and sanitary condition;

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- (2) Owner may furnish the patio, balcony or deck with outdoor furniture for reasonable family use and in keeping with the aesthetics of the Property, with the prior consent of the Architectural Committee;
 - (3) Owner may not paint, alter, remodel or enclose any patio, balcony or deck without prior approval of the Architectural Committee; and
 - (4) Owner may not place or store unsightly objects on a patio, balcony or deck that can be seen by the public or other Owners from their Units, patios, balconies, or Common Area.
- (e) Any change to the exterior appearance of a Unit must be in accordance with the Governing Documents and applicable laws.
 - (f) An Owner may not make any improvement which impairs the structural integrity or mechanical systems, or lessens the support of any portion of the Property.
 - (g) Subject to this Declaration and California Civil Code Section 1360 (or any successor statutes), an Owner may do the following:
 - (1) Make any improvement or alteration within the Unit and its Exclusive Use Common Area (if any) that does not impair the structural integrity or mechanical systems, or lessen the support of any portion of the Property.
 - (2) Modify a Unit and its Exclusive Use Common Area (if any) to eliminate hazards and facilitate access for disabled persons (including the route from the public way to the Unit door) subject to the following conditions:
 - (A) The modifications must be consistent with applicable building code requirements.
 - (B) The modifications must be consistent with applicable provisions of the Governing Documents regarding safety and aesthetics.
 - (C) External modifications to the Unit or its Exclusive Use Common Area may not prevent reasonable passage by other Owners, and must be removed by the Owner when the Unit is no longer occupied by the person(s) requiring the modifications.
 - (D) Plans and specifications must be submitted to the Architectural Committee for review to determine compliance with the provisions of this paragraph.

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- (E) The Architectural Committee may not deny approval of the proposed modifications without good cause.
- (h) Notwithstanding anything herein to the contrary, Declarant may install hard floor surfaces in a Unit or in the Common Area, (including without limitation, wood, marble, granite, or tile, regardless of its noise impact on any other Unit or Owner).
- (i) An Owner may not alter any structure or landscape portions of any Unit visible from the street or Common Area(s) without the prior approval of the Architectural Committee.

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ARTICLE IV

ASSOCIATION, MEMBERSHIP AND VOTING RIGHTS

4.01 Membership.

Every Unit Owner is automatically an Association Member.

4.02 Membership Classes.

(a) The Association has two (2) classes of voting membership:

- (1) Class A Members - All Unit Owners (other than Declarant).
- (2) Class B Member - The Declarant, entitled to three (3) votes for each Unit owned.

(b) Class B Membership irreversibly ceases and converts to Class A Membership on the first to occur of the following:

- (1) The total outstanding votes held by Class A Membership equals the total outstanding votes held by Class B Membership (tripled); or
- (2) Two (2) years after the first conveyance after issuance of the original DRE public report.

4.03 Joint Ownership.

- (a) Each joint Unit Owner has an indivisible interest in a single Membership.
- (b) Each Unit is entitled to one (1) vote.
- (c) Each Unit's vote is cast as a single unit, without fraction.
- (d) If joint Unit Owners cannot unanimously agree how to cast their vote, they forfeit their right to vote on the matter in question.
- (e) If a joint Owner casts a vote representing a certain Unit, it will be presumed for all purposes to be a vote with the authority and consent of all other joint Owners of the Unit.

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4.04 Voting Rights and Requirements.

- (a) Voting rights shall commence for each Unit within the Project when Assessments against the Unit have been levied by the Association.
- (b) After Notice and Hearing, the Association has the right to suspend the voting rights of any Owner delinquent in the payment of Assessments.
- (c) If Membership approval of a prescribed majority of the voting power (other than Declarant) is required, the following rules apply:
 - (1) If both Class A and Class B Members exist, the required vote is a bare majority of Class B voting power, and the prescribed majority of Class A voting power; or
 - (2) After conversion to all Class A memberships, the required vote is a bare majority of the total voting power of the Association, and the prescribed majority of the total voting power of Members other than Declarant.
- (d) Unless otherwise specifically required, Membership approval requires the affirmative vote of a majority of a quorum of each class of Membership (and after conversion, approval of Class A only).

4.05 Transfer of Membership.

- (a) Membership of each Owner shall be appurtenant to the Condominium owned, and may only be (and is automatically) transferred upon conveyance of title to a Condominium to the new Owner.
- (b) The Association may not collect or impose any fee, Assessment, interest, or other restriction relating to a title transfer other than the Association's actual costs to change its records.
- (c) The California Civil Code Section 1368 provides in part that an Owner shall as soon as practicable before transfer of title give to a prospective purchaser a copy of the Governing Documents along with a true statement in writing from the Board of Directors detailing delinquent Assessments, a copy of the most recent financial statement pursuant to Civil Code Section 1365, and a statement concerning limitations, if any, on occupancy, residency, or use on the basis of age.

ARTICLE V

DUTIES AND POWERS OF THE ASSOCIATION5.01 Commencement of Duties.

The Association's responsibility for the management, maintenance and administration of the Property in accordance with the Governing Documents commences when the first Condominium is sold.

5.02 Specific Association Duties and Powers.

The duties and powers of the Association are those set forth in the Governing Documents, together with its general and implied powers as a nonprofit mutual benefit corporation, generally to do all things which are necessary or proper for the peace, health, comfort, safety and general welfare of its Members, including the following:

- (a) Obtain refuse collection, gardening, janitorial, water, sewer, electrical, gas and other services for the benefit of the Common Area(s), to be paid for by Assessments levied and collected for the services.
- (b) Adopt reasonable Rules and Regulations consistent with this Declaration relating to use of the Common Area(s) and facilities, and to implement the provisions of this Declaration.
- (c) Discharge by payment any lien against the Common Area(s), including any property taxes and assessments which may become liens, and assess all costs and fees to the Member(s) responsible for the lien. Such a property tax or assessment may be contested or compromised by the Association, provided that it is paid, or a bond insuring its payment is posted prior to the disposition of any property to satisfy the payment of taxes.
- (d) Obtain management services (the "Manager") to manage the Common Area(s), and hire accountants, lawyers, and any other personnel needed to perform the duties and responsibilities deemed advisable by the Association.
 - (1) If there are more than twenty (20) Units in the Property, or if there are any VA loans outstanding for the Project, the Manager must be covered by a fidelity bond equal to a three (3) month Assessments of all the Units which provides for a ten (10) day written notice to the Association and each FNMA Mortgage serviced before the bond is cancelled or modified for any reason.

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- (2) If the Association enters into a management contract before the conversion of Class B to Class A memberships, the contract must include a right of termination without cause that the Association may exercise at any time after conversion (with an advance notice of thirty (30) days and without payment of any penalty).
- (e) Construct or demolish (with Board approval) improvements to the Common Area(s), and levy a Special Assessment for the work, in accordance with the provisions of this Declaration (with VA approval, if applicable).
- (f) Establish and maintain working capital, reserve and/or contingency funds in reasonable amounts determined by the Board.
- (g) Enforce the applicable provisions of the Declaration, Articles, Bylaws, Rules and other instruments for the ownership, management and control of the Project.
- (h) Contract for goods and/or services for the Common Areas, facilities, and interests, or for the Association subject to the limitations set forth below.
- (i) Exercise any powers normally exercised by residential homeowner associations under the laws of the State of California.

5.03 Board Powers and Limitations

Except as to matters requiring the approval of Owners, the affairs of the Association shall be conducted by the Board consistent with the law applicable to mutual benefit non-profit corporations.

The Board may not ordinarily take any of the following actions unless approved by a majority of the voting power of Members (other than Declarant):

- (a) Enter into a contract for a term longer than one (1) year with a third person who furnishes goods or services for the Common Area(s) or the Association, with the following exceptions:
 - (1) A management contract with terms approved by the FHA or VA;
 - (2) A contract with a public utility company if the Public Utilities Commission regulates rates charged for materials or services, provided that the contract term does not exceed the shortest term for which the supplier will contract at the regulated rate;

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- (3) Prepaid casualty and/or liability insurance policies of not to exceed three (3) years' duration, provided that the policy permits short-rate cancellation by the insured;
 - (4) Lease agreements for laundry room fixtures and equipment not to exceed five years duration, provided that Declarant's ownership interest in the lessor under the agreement does not exceed ten percent (10%);
 - (5) Agreements for satellite dishes or cable television services and equipment, not to exceed five (5) years duration, provided that the Declarant's ownership interest in the entity does not exceed ten percent (10%); and
 - (6) Agreements for sale, lease, installation or services of burglar and fire alarm equipment, not to exceed five (5) years duration, provided that Declarant's ownership interest in any entity involved does not exceed ten percent (10%).
- (b) Incur capital improvement expenditures for Common Area improvements in excess of five percent (5%) of the Association's budgeted gross expenses for that fiscal year.
 - (c) Sell Association property whose aggregate fair market value is more than five percent (5%) of the budgeted gross expenses of the Association for that fiscal year.
 - (d) Pay compensation to Association Officers, Board Members or the Board for services performed, except as reimbursement of costs incurred in the conduct of the Association's business.

5.04 Insurance.

Subject to the Section entitled, "Government Financing Programs", it is the Association's duty to obtain and maintain insurance coverages as mandated in this Section.

Blanket insurance policy premiums are a Common Expense to be included in the regular Assessments.

The policies shall name as insureds the Owners, their Mortgagees, the Association, and the Declarant (while Owner of any Condominium), with a loss-payable endorsement naming the Association as Trustee.

The Board must maintain the following insurance coverages:

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- (a) Fire insurance for one hundred percent (100%) of the full replacement value of all improvements on the Property, including the Condominiums and Common Area(s), without deduction for depreciation or coinsurance. It is recommended that individual Owners maintain their own insurance for personal property.
- (b) Extended coverage that includes vandalism, malicious mischief, and replacement costs.
- (c) At least ONE MILLION DOLLARS (\$1,000,000) in comprehensive general liability insurance that covers the Association, Board, Declarant, Managing Agent, Owners, and any other agents or employees incident to the Common Area(s) against physical injury, death and property damage, and which contains:
 - (1) A "severability of interest" endorsement to preclude the insurer from denying an Owner's claim due to a negligent act by other Owners or the Association; and
 - (2) If available, a cross liability to each insured.
- (d) If available, an extended coverage endorsement clause known as "All Risk", and a clause that permits a cash settlement to cover the full value of improvements in case of destruction and a subsequent decision not to rebuild.
- (e) There shall be a deductible of no more than Ten Thousand Dollars (\$10,000.00) or one percent (1%) of the face amount of the policy, provided it is acceptable to the First Mortgagees named as insured.
- (f) Each hazard insurance policy must be written by a carrier who meets FNMA requirements for a "Best Rating".
- (g) Workers' compensation insurance in compliance with all applicable laws.
- (h) If the Secretary of Housing and Urban Development identifies the Property as having special flood hazards:
 - (1) A "blanket" flood insurance policy must be maintained to the maximum coverage available under the appropriate National Flood Insurance Administration program, or 100% of the insurable value of the facilities, whichever is less; and
 - (2) The maximum deductible for the policy is FIVE THOUSAND DOLLARS (\$5,000) or one percent (1%) of the policy's face amount, whichever is less.

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- (i) A fidelity bond that insures the Association for the estimated maximum amount (or at least three (3) months aggregate Assessments on all Units and reserve funds) that could be affected by the dishonest act of any person who handles funds for the Owners' benefit. (Mandatory for a Property with more than twenty (20) Units, and at the option of the Association for a Property with less Units).
- (j) The Association (acting through the Board of Directors) is trustee of all named insureds under policies maintained by the Association, with proceeds payable to the Association. The Board has authority to:
 - (1) Receive and deal with the proceeds as provided for in this Declaration;
 - (2) Negotiate loss settlements with insurance carriers (with first Mortgagees' participation, for those who have filed written requests for notice) within ten (10) days after receiving notice of any damage or destruction; and
 - (3) Name a representative as insured (with whom the Association may enter into an insurance trust agreement) who will have exclusive authority to negotiate any losses.
- (k) Any two (2) Association officers may sign loss claim forms and release forms regarding a settlement, and their signatures will be binding on all named insureds.
- (l) Insurance and fidelity bonds must provide for a ten (10) day written notice of modification or termination to any insurance trustee, and to each FNMA servicer who has filed a written request with the carrier for such notice.
- (m) Any insurance policy the Association deems appropriate.
- (n) Association insurance policies shall contain the following provisions, ("Special Condominium Endorsements") as appropriate:
 - (1) Statements that the policies are primary and non-contributing, even if an Owner has other insurance;
 - (2) Statements that an Owner's conduct will not constitute grounds for avoiding liability;
 - (3) A waiver of the carrier's right of subrogation against any Owner or family member, the Association, the Board, the Manager, the Board, the Declarant, and any of their agents or employees;
 - (4) Insurance Guard Endorsement, if obtainable at a reasonable cost;
 - (5) Any Insurance Trust Agreement will be recognized;

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