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FOR
DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS
AND RESERVATION OF EASEMENTS
FOR
VALLECITOS RIDGE

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**DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS
AND RESERVATION OF EASEMENTS
FOR
VALLECITOS RIDGE**

THIS DECLARATION is made by K. HOVNIANIAN FORECAST HOMES, INC., a California corporation. The capitalized terms used in the Preamble are defined in Article I.

P R E A M B L E:

A. Declarant is the owner of real property located in the City of San Marcos, San Diego County, California, described as follows:

Lots 78 to 103, inclusive, of San Marcos Tract No. 432, Map No. 14726, Filed in Book of Parcel Maps on Page 14726, Official Records of San Diego County, on December 24, 2003.

B. Declarant intends to create a "planned development," as defined in Section 1351(k) of the California Civil Code, to create a "subdivision" as defined in Section 11000 of the California Business and Professions Code, and to impose mutually beneficial restrictions under a general plan for subdividing, maintaining, improving and selling the Lots in the Properties for the benefit of all the Lots pursuant to the Davis-Stirling Common Interest Development Act.

C. The Properties are to be held, conveyed, encumbered, leased, used and improved subject to covenants, conditions, restrictions and easements in this Declaration, all of which are in furtherance of a plan for subdividing, maintaining, improving and selling the Lots in the Properties. All provisions of this Declaration are imposed as equitable servitudes on the Properties. All covenants, conditions, restrictions and easements in this Declaration shall (i) run with and burden the Properties, and (ii) be binding on and for the benefit of all of the Properties and all Persons acquiring any interest in the Properties.

**ARTICLE I
DEFINITIONS AND INTERPRETATION**

1.1. **DEFINITIONS.** Unless otherwise expressly provided, the following words and phrases when used in this Declaration have the following meanings.

1.1.1 **Annexable Territory.** Annexable Territory means the real property described in *Exhibit A* which may be made subject to this Declaration pursuant to Article XVI. Any references in this Declaration to Annexable Territory are references to the Annexable Territory as a whole and to portions thereof.

1.1.2 **Annual Assessment.** Annual Assessment means a charge against the Owners and their Lots representing their share of the Common Expenses. The Annual Assessment is a regular assessment as described in California Civil Code Section 1366.

1.1.3 **Articles.** Articles means the Articles of Incorporation of the Association currently in effect. A copy of the Articles is attached as *Exhibit B*.

1.1.4 **Assessment.** Assessment means any Annual Assessment, Capital Improvement Assessment, Reconstruction Assessment and Special Assessment.

1.1.5 **Association.** Association means Vallecitos Ridge Association, a California nonprofit corporation (formed pursuant to the California Nonprofit Mutual Benefit Corporation Law), and its successors. The Association is an "association" as defined in Section 1351(a) of the California Civil Code.

1.1.6 **Association Maintenance Area.** Association Maintenance Area means those Improvements on residential Lots or other real property which are not owned in fee by the Association but which are designated for maintenance by the Association. The approximate location of Association Maintenance Area designated in Phase 1 and the Annexable Territory is shown on *Exhibit D* and is shown on the Subdivision Map of the Properties. Additional depictions of Association Maintenance Area on exhibits attached to any Notice of Addition or Supplemental Declaration will supercede *Exhibit D*. However, the actual location of Association Maintenance Area shall be established by the as-built boundaries of the Improvements which comprise the particular Association Maintenance Area.

(a) **Generally.** The Association Maintenance Areas in a Phase may include one or more of the following:

(i) The verdura (keystone) wall along the southern perimeter of the Properties which is constructed on or adjacent to residential Lots and Lot C of San Marcos Tract No. 432;

(ii) Slopes (including the landscaping and irrigation systems) and drainage facilities on residential Lots and on Lot F of San Marcos Tract No. 432;

(iii) Areas of fuel modification/brush management on Lot F of San Marcos Tract No. 432.

(b) **Association Maintenance Areas in Phase 1.** The Association Maintenance Areas designated in Phase 1 include (1) the verdura (keystone) wall on Lots 90 to 101, inclusive, of San Marcos Tract No. 432 and (2) the slopes (including the landscaping and irrigation systems) and drainage facilities (if any) located on Lots 90 to 101, inclusive, of San Marcos Tract No. 432, within the private slope and landscape maintenance easement area and private drainage easement area as shown on the Map for San Marcos Tract No. 432 and *Exhibit D*.

(c) **Association Maintenance Areas in Future Phases.** Association Maintenance Areas designated in each future Phase may include the items listed in subparagraph

(a) above as applicable to the Lots in such Phase. Declarant may designate additional Association Maintenance Areas in a Notice of Addition or Supplemental Declaration.

1.1.7 Association Maintenance Funds. Association Maintenance Funds means the accounts created for Association receipts and disbursements pursuant to Article VII.

1.1.8 Board or Board of Directors. Board or Board of Directors means the Association's Board of Directors.

1.1.9 Budget. Budget means a written, itemized estimate of the Association's income and Common Expenses prepared pursuant to the Bylaws.

1.1.10 Bylaws. Bylaws means the Bylaws of the Association as currently in effect. A copy of the Bylaws as initially adopted by the Board is attached as *Exhibit C*.

1.1.11 Capital Improvement Assessment. Capital Improvement Assessment means a charge against the Owners and their Lots representing their share of the Association's cost for installing or constructing capital Improvements on the Common Area. Capital Improvements Assessments shall be levied in the same proportion as Annual Assessments. Capital Improvement Assessments are special assessments as described in California Civil Code Section 1366.

1.1.12 City. City means the City of San Marcos, California, and its various departments, divisions, employees and representatives.

1.1.13 Close of Escrow. Close of Escrow means the date on which a deed is Recorded conveying a Lot pursuant to a transaction requiring the issuance of a Final Subdivision Public Report by the DRE.

1.1.14 Common Area. Common Area means real or personal property designated by the Declarant as Common Area and therefore made subject to the restrictions on Common Area established in the Restrictions. Any references in this Declaration to Common Area are references to the Common Area as a whole and to portions thereof. Additional Common Area may be annexed to the Properties pursuant to Article XVI. There is no Common Area in Phase I.

1.1.15 Common Expenses. Common Expenses means those expenses for which the Association is responsible under this Declaration. Common Expenses include:

(a) The actual and estimated costs of and reserves for maintaining, managing and operating (including amounts incurred for maintenance imposed on the Association by this Declaration) the Common Property, including:

(i) Common Area and Improvements thereon, including clustered mailboxes, private streets, private streetlights, the storm drain system and catch basins within the private streets, landscaped parkways and medians on private streets, sidewalks along private streets, park furniture, entry facilities including equipment, compliance with post-construction BMPs applicable to the Properties, as set forth in Article II below, the detention

basin on Lot D of San Marcos Tract No. 432 and gardening and other services benefiting the Common Area; and

(ii) The Association Maintenance Areas.

(b) The cost of all utilities and mechanical and electrical equipment serving the Common Property, including energy costs for street lights, utilities which serve individual Lots but which are subject to a common meter;

(c) The monthly telecommunications services fees payable by the Association under the Bulk Telecommunications Services Agreement, if any;

(d) The costs and fees attributable to managing and administering the Association, compensating the Manager, accountants, attorneys and employees, all insurance covering the Properties and the Directors, officers and agents of the Association, and bonding the members of the Board;

(e) Unpaid Special Assessments, Reconstruction Assessments and Capital Improvement Assessments;

(f) Taxes paid by the Association;

(g) Amounts paid by the Association for discharge of any lien or encumbrance levied against the Properties, and

(h) All other expenses incurred by the Association for the Properties, for the common benefit of the Owners.

1.1.16 Common Property. Common Property means the real property and Improvements designated as Common Area or Association Maintenance Areas in this Declaration or in a Notice of Addition or Supplemental Declaration.

1.1.17 County. County means San Diego County, California, and its various departments, divisions, employees and representatives.

1.1.18 Declarant. Declarant means K. Hovnanian Forecast Homes, Inc., a California corporation, its successors and any Person to which it shall have assigned any of its rights by an express written assignment. As used in this Section, "successor" means a Person who acquires Declarant or substantially all of Declarant's assets by sale, merger, reverse merger, consolidation, sale of stock or assets, operation of law or otherwise. Declarant shall determine in its sole discretion the time, place and manner in which it discharges its obligations and exercises the rights reserved to it under this Declaration. Declarant is a "builder" as described in California Civil Code Section 1375.

1.1.19 Declaration. Declaration means this instrument as currently in effect.

1.1.20 **Design Guidelines.** Design Guidelines mean the rules or guidelines setting forth procedures and standards for submission of plans for Design Review Committee approval.

1.1.21 **Design Review Committee or Committee.** Design Review Committee or Committee means the Design Review Committee created in accordance with Article V.

1.1.22 **DRE.** DRE means the California Department of Real Estate and any department or agency of the California state government which succeeds to the DRE's functions.

1.1.23 **Family.** Family means natural individuals, related or not, who live as a single household in a Residence.

1.1.24 **FHA.** FHA means the Federal Housing Administration of the United States Department of Housing and Urban Development and its successors.

1.1.25 **FHLMC.** FHLMC means the Federal Home Loan Mortgage Corporation created by Title II of the Emergency Home Finance Act of 1970 and its successors.

1.1.26 **Fiscal Year.** Fiscal Year means the fiscal accounting and reporting period of the Association.

1.1.27 **FNMA.** FNMA means 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 its successors.

1.1.28 **GNMA.** GNMA means the Government National Mortgage Association administered by the United States Department of Housing and Urban Development and its successors.

1.1.29 **Improvement.** Improvement means any structure and any appurtenance thereto including a building, walkway, irrigation system, garage, controlled access facility, road, driveway, parking area, fence, any type of wall, awning, stairs, deck, any type of landscaping and planting, antenna, windbreak, the exterior surface of any visible structure and the paint on such surface, pole, sign, exterior air conditioning and water softener fixture or equipment. The Design Review Committee may identify additional items that are Improvements.

1.1.30 **Include, Including.** Whether capitalized or not, includes and including mean "includes without limitation" and "including without limitation," respectively.

1.1.31 **Lot.** Lot means any residential Lot or residential parcel of land shown on any Recorded subdivision map or Recorded parcel map of the Properties, and excludes the Common Area.

1.1.32 **Maintain, Maintenance.** Whether capitalized or not, maintain and maintenance mean "maintain, repair and replace" and "maintenance, repair and replacement," respectively; provided, however, that maintain or maintenance shall not include repair and

replace(ment) where the context or the specific language of this Declaration provides another meaning.

1.1.33 Maintenance Requirements; Maintenance Manual. Maintenance Requirements means any current written guidelines, setting forth procedures and standards for the maintenance and operation of (a) Common Property by the Association and (b) the Residences and Lots by the Owners, that may be provided to the Association and to each Owner by Declarant, the Association or any governmental agency. Maintenance Requirements include any Maintenance Manual initially prepared at Declarant's direction and containing recommended frequency of inspections and maintenance activities for components of the Common Property, and any New Home Maintenance Manual prepared by Declarant pertaining to a Residence or Lot.

1.1.34 Manager. Manager means the Person retained by the Association to perform management functions of the Association as limited by the Restrictions and the terms of the agreement between the Association and the Person.

1.1.35 Membership. Membership means the voting and other rights, privileges, and duties established in the Restrictions for members of the Association.

1.1.36 Mortgage. Mortgage means any Recorded document, including a deed of trust, by which a Lot, Lots, or Common Area is hypothecated to secure performance of an obligation.

1.1.37 Mortgagee. Mortgagee means a Person to whom a Mortgage is made, or the assignee of the Mortgagee's rights under the Mortgage by a Recorded assignment. For purposes of this Declaration, the term Mortgagee shall include a beneficiary under a deed of trust.

1.1.38 Mortgagor. Mortgagor means a person who has mortgaged his property. For purposes of this Declaration, the term Mortgagor shall include a Trustor under a deed of trust.

1.1.39 Notice and Hearing. Notice and Hearing means written notice and a hearing before the Board as provided in the Bylaws.

1.1.40 Notice of Addition. Notice of Addition means an instrument Recorded pursuant to Article XVI to annex additional real property to the Properties. A Notice of Addition may include a Supplemental Declaration.

1.1.41 Owner. Owner means the Person or Persons, including Declarant, holding fee simple interest to a Lot. Each Owner has a Membership in the Association. The term "**Owner**" includes sellers under executory contracts of sale but excludes Mortgagees. The term "**Owner**" may be expanded in a Supplemental Declaration to include other Persons.

1.1.42 Person. Person means a natural individual or any legal entity recognized under California law. When the word "person" is not capitalized, the word refers only to natural persons.

1.1.43 **Phase.** Phase means each of the following: (a) Phase 1, and (b) all the real property covered by a Notice of Addition for which a Final Subdivision Public Report has been issued by the DRE, unless "*Phase*" is otherwise defined in such Notice of Addition.

1.1.44 **Phase 1.** Phase 1 means all of the real property described in Paragraph A of the Preamble of this Declaration.

1.1.45 **Properties.** Properties means (a) Phase 1, and (b) each Phase described in a Notice of Addition. The Properties are a "common interest development" and a "planned development" as defined in Sections 1351(c) and 1351(k) of the California Civil Code. Any references in this Declaration to the Properties are references to the Properties as a whole and to portions thereof.

1.1.46 **Reconstruction Assessment.** Reconstruction Assessment means a charge against the Owners and their Lots representing their share of the Association's cost to reconstruct any Improvements on the Common Property. Such charge shall be levied among all Owners and their Lots in the same proportions as Annual Assessments. Reconstruction Assessments are "special assessments" as described in California Civil Code Section 1366.

1.1.47 **Record or File.** Record or File means, with respect to any document, the entry of such document in official records of the County Recorder.

1.1.48 **Residence.** Residence means a building located on a Lot designed and intended for use and occupancy as a residence by a single Family.

1.1.49 **Restrictions.** Restrictions means this Declaration, the Articles, Bylaws, Design Guidelines, Rules and Regulations, Supplemental Declarations and Notices of Addition.

1.1.50 **Right to Repair Law.** Right to Repair Law means Division 2, Part 2, Title 7 (commencing with Section 895) of the California Civil Code.

1.1.51 **Rules and Regulations.** Rules and Regulations or Rules means the current rules and regulations for the Properties.

1.1.52 **Special Assessment.** Special Assessment means a charge against an Owner and his Lot representing a reasonable fine or penalty, including reimbursement costs, as provided for in this Declaration.

1.1.53 **Supplemental Declaration.** Supplemental Declaration means an instrument which imposes conditions, covenants, or restrictions or reserves easements. A Supplemental Declaration may affect one or more Lots. Declarant may Record a Supplemental Declaration so long as Declarant owns all of the real property to be encumbered by the Supplemental Declaration. A Supplemental Declaration may modify this Declaration as it applies to the property encumbered by the Supplemental Declaration.

1.1.54 **Telecommunication Facilities.** Telecommunication Facilities means equipment, cables, conduits, inner ducts, vaults, connecting hardware, wires, poles, transmitters,

towers, antennae and other facilities and structures necessary for, or used in, the provision of Telecommunication Services.

1.1.55 Telecommunications Services. Telecommunications Services means Telecommunication Facilities, Improvements, and services for cable television, communications, telecommunications, antenna, high-speed data, telephony and all related vertical services, intranet, internet, information transfer, transmission, video and other similar services. Declarant may expand this definition in any Supplemental Declaration.

1.1.56 VA. VA means the Department of Veterans Affairs of the United States of America and its successors.

1.2. INTERPRETATION.

1.2.1 General Rules. This Declaration shall be liberally construed to effectuate its purpose of creating a uniform plan for subdividing, maintaining, improving and selling the Properties. As used in this Declaration, the singular includes the plural and the plural the singular. The masculine, feminine and neuter each includes the other, unless the context dictates otherwise.

1.2.2 Articles, Sections and Exhibits. The Article and Section headings are inserted for convenience only and may not be considered in resolving questions of interpretation or construction. Unless otherwise indicated, any references in this Declaration to articles, sections or exhibits are to Articles, Sections and Exhibits of this Declaration. *Exhibits A, D, E and F* attached to this Declaration are incorporated in this Declaration by this reference.

1.2.3 Priorities and Inconsistencies. If there are conflicts or inconsistencies between this Declaration and the Articles, Bylaws, Rules and Regulations, or a Supplemental Declaration, then the provisions of this Declaration shall prevail.

1.2.4 Severability. The provisions of this Declaration are independent and severable. A determination of invalidity or partial invalidity or unenforceability of any one provision of this Declaration by a court of competent jurisdiction does not affect the validity or enforceability of any other provisions of this Declaration.

1.2.5 Statutory References. All references made in this Declaration to statutes are to those statutes as currently in effect or to subsequently enacted replacement statutes.

ARTICLE II RESIDENCE AND USE RESTRICTIONS

The Properties shall be held, used and enjoyed subject to the following restrictions and the exemptions of Declarant set forth in this Declaration and any Supplemental Declarations.

2.1. SINGLE FAMILY RESIDENCE. Each Lot shall be used as a dwelling for a single Family and for no other purpose. Subject to any Owner occupancy requirements separately imposed by Declarant, an Owner may rent his Lot to a single Family provided that the Lot is rented pursuant to a lease or rental agreement which is (a) in writing, and (b) subject to

this Declaration. An Owner may also rent or lease a Lot to Declarant for use as sales offices, models and parking areas.

2.2. COMMERCIAL ACTIVITY. No Owner or other occupant of the Properties may operate any commercial enterprise on any Lot or on any portion of the Common Area for business or commercial purpose, including manufacturing, mercantile, storage, vending, auctions, transient occupancy hotel or time-share vehicle repair, or other non-residential purpose, whether the activity is engaged in full or part-time, generates or does not generate a profit, or requires or does not require a license. This Section shall not preclude Declarant from exercising any rights reserved to it under Article XV, nor shall it preclude small home-based businesses that comply with all of the following: (a) the operator of the business also lives in the Residence on a permanent, full-time basis; (b) the business is operated solely within the Residence; (c) the business does not generate in-person visits by suppliers or clientele; (d) the business complies with all laws, regulations and ordinances applicable to the Properties, including zoning, health and licensing requirements; (e) the business otherwise complies with the Declaration and is consistent with the residential character of the Properties; (f) the existence or operation of the business is not apparent or detectable outside the Residence by sight, sound or odor; and (g) the business does not increase the Association's liability or casualty insurance obligation or premium.

2.3. NUISANCES. Noxious or offensive activities are prohibited on the Properties and on any public street abutting or visible from the Properties. All horns, whistles, bells or other sound devices, except security devices used exclusively to protect the security of a Residence or a vehicle and its contents, are also prohibited. Noisy, unsightly, unusually painted or smoky vehicles, large power equipment and large power tools (excluding lawn mowers and other equipment used in connection with ordinary landscape maintenance), off-road motor vehicles or items which may unreasonably interfere with television or radio reception to any Lot, and objects which create or emit loud noises or noxious odors may not be located or used in the Properties or on any public street abutting the Properties, or exposed to the view of other Owners without the Board's prior written approval. No plants or seeds infected with noxious insects or plant disease may be brought upon, grown or maintained on the Properties. Outdoor patio or lounge furniture, plants and barbecue equipment may be kept in accordance with the Rules and Regulations. No outdoor fires are permitted, except in barbecue grills and fire pits designed and used in such a manner that they do not create a fire hazard. No clothing, fabrics or unsightly articles may be hung, dried or aired on or over any Lot. The Board is entitled to determine if any noise, odor, or activity producing such noise or odor constitutes a nuisance. No Owner may permit or cause anything to be done or kept on the Properties or on any public street abutting the Properties which may increase the rate of insurance in the Properties, or result in cancellation of such insurance. Each Owner shall comply with all laws regarding occupancy and use of a Lot. No plants or seeds infected with noxious insects or plant diseases may be brought upon, grown or maintained on the Properties. Building materials may be kept in areas designated by the Design Review Committee temporarily during construction which has been approved by the Committee. No outdoor fires are permitted, except in barbecue grills and fire pits designed and used in such a manner that they do not create a fire hazard. No clothing, fabrics or unsightly articles may be hung, dried or aired on or over any Lot.

2.4. **SIGNS.** Subject to Civil Code Sections 712 and 713, no sign, advertising device or other display of any kind shall be displayed in the Properties or on any public street in or abutting the Properties except for the following signs:

2.4.1 entry monuments, community identification signs, and traffic or parking control signs maintained by the Association;

2.4.2 for each Lot, one (1) nameplate or similar Owner name or address identification sign which complies with Design Review Committee rules;

2.4.3 for each Lot, one (1) sign advising of the existence of security services protecting a Lot which complies with Design Review Committee rules;

2.4.4 for each Lot, one (1) sign advertising the Lot for sale or lease that complies with the following requirements:

(a) the sign is not larger than eighteen inches (18") by thirty inches (30") in size;

(i) the sign is attached to the ground by a conventional, single vertical stake which does not exceed two (2) inches by three (3) inches in diameter (*i.e.*, posts, pillars, frames or similar arrangements are prohibited);

(ii) the top of the sign is not more than three (3) feet in height above the ground level;

(b) the sign is of a color and style and location authorized by the Design Review Committee; and

2.4.5 other signs or displays authorized by the Design Review Committee.

2.5. **PARKING AND VEHICULAR RESTRICTIONS.**

2.5.1 **Definitions.** The following definitions shall apply to parking and vehicular restrictions set forth in this Declaration:

(a) **Authorized Vehicle.** An "Authorized Vehicle" is an automobile, a passenger van designed to accommodate ten (10) or fewer people, a motorcycle, or a pickup truck having a manufacturer's rating or payload capacity of one (1) ton or less. The Association has the power to identify additional vehicles as Authorized Vehicles in the Rules and Regulations in order to adapt this restriction to other types of vehicles that are not listed above.

(b) **Prohibited Vehicles.** The following vehicles are "Prohibited Vehicles:" (a) recreational vehicles (for example, motorhomes, travel trailers, camper vans and water craft), (b) commercial-type vehicles (for example, construction trucks and vehicular equipment, step vans, and limousines), (c) buses or vans designed to accommodate more than ten (10) people, (d) vehicles having more than two (2) axles, (e) trailers, (f) inoperable vehicles or parts of vehicles, (g) aircraft, (h) any vehicle or vehicular equipment deemed a nuisance by the

Association, and (i) any other vehicle not classified as an Authorized Vehicle. If a vehicle qualifies as both an Authorized Vehicle and a Prohibited Vehicle, then the vehicle is presumed to be a Prohibited Vehicle, unless the vehicle is expressly authorized in writing by the Association. The Association has the power to identify additional vehicles as Prohibited Vehicles in the Rules and Regulations to adapt this restriction to other types of vehicles that are not listed above.

2.5.2 Parking Restrictions. Owners and other residents of the Properties must park their vehicles in the garage or driveway only. No more than two (2) Authorized Vehicles may be parked, stored or kept on driveways in the Properties. Prohibited Vehicles may not be parked, stored or kept on driveways in the Properties except for brief periods during loading, unloading, or emergency repairs. However, a resident may park a Prohibited Vehicle in the garage so long as the garage is kept closed and the presence of the Prohibited Vehicle does not prevent any Authorized Vehicle from being parked in the garage or driveway at the same time. Each Owner shall at all times ensure that the garage accommodates at least the number of Authorized Vehicles for which it was originally constructed by Declarant. The garages shall be used for parking vehicles and storage of personal property only. No garage may be used, used for any living, recreational, or other purpose. Garage doors must be kept closed except as necessary for entry or exit of vehicles or persons.

2.5.3 Repair, Maintenance and Restoration. No Person may repair, maintain or restore any vehicle in the Properties, unless such work is conducted in the garage with the garage door closed. However, no Person may carry on in any portion of the Properties any vehicle repair, maintenance or restoration business.

2.5.4 Enforcement. The Board shall enforce all parking and vehicle use regulations applicable to the Properties, including the removal of violating vehicles from guest spaces and other portions of the Properties in accordance with California Vehicle Code Section 22658.2 or other applicable laws. If the Board fails to enforce any of the foregoing parking and vehicular restrictions or Association rules and regulations promulgated from time to time, the City may, but is not required to, enforce such restrictions, rules and regulations.

2.5.5 Regulation and Restriction by Board. The Board has the power to: (a) establish additional rules and regulations concerning parking in the Association Property, including designating "parking," "guest parking," and "no parking" areas; (b) prohibit any vehicle repair, maintenance or restoration activity in the Properties if it determines in its sole discretion that such activity is a nuisance; and (c) promulgate rules and regulations concerning vehicles and parking in the Properties as it deems necessary and desirable.

2.6. ANIMAL REGULATIONS. Up to two (2) domestic dogs, cats, birds, or other customary household pets may be kept in each Lot, provided that they are not kept, bred, or maintained for commercial purposes or in unreasonable quantities. Small household pets such as fish and caged birds may be kept in reasonable numbers so long as there is no external evidence of their presence in the Properties. Animals belonging to Owners, tenants, residents or guests in the Properties must be kept in the Lot. When outdoors, animals must be kept under the control of a Person capable of controlling the animal either on a leash or other appropriate restraint. Furthermore, each Owner shall be absolutely liable to each and all remaining Owners, their Families, tenants, residents and guests, for damages or injuries caused by any animals brought or

kept on the Properties by an Owner, by members of the Owner's Family, or by the Owner's tenants, residents or guests. Each Owner shall immediately remove any excrement or clean other unsanitary conditions caused by such Owner's animals on any portion of the Properties.

2.7. ANTENNA RESTRICTIONS. No Person may install on the exterior of any Residence or in a yard any antenna or over-the-air receiving device except for an "Authorized Antenna." An Authorized Antenna is (i) an antenna designed to receive direct broadcast satellite service, including direct-to-home satellite service, that is one meter or less in diameter, or (ii) an antenna designed to receive video programming service, including multichannel multipoint distribution service, instructional television fixed service, and local multipoint distribution service, and is one meter or less in diameter or diagonal measurement, (iii) an antenna designed to receive television broadcast signals, or (iv) an antenna used to receive and transmit fixed wireless signals. An Authorized Antenna may be mounted on a mast to reach the height needed to receive an acceptable quality signal, subject to local governmental agency permitting requirements for safety purposes.

2.7.1 Restrictions on Installation. The Committee may adopt reasonable restrictions on installation and use of an Authorized Antenna as part of its Design Guidelines in order to minimize visibility of the Authorized Antenna from other Lots. Such restrictions may designate one or more preferred installation locations, or require camouflage such as paint (subject to the antenna manufacturer's recommendations) or screening vegetation or other Improvements. However, no restriction imposed by the Committee may (i) unreasonably delay or prevent the installation, maintenance or use of an Authorized Antenna, (ii) unreasonably increase the cost of installation, maintenance or use of an Authorized Antenna, or (iii) preclude acceptable quality reception.

2.7.2 Prohibitions on Installation. The Committee may prohibit the installation of an Authorized Antenna in a particular location if, in the Committee's opinion, the installation, location or maintenance of such Authorized Antenna unreasonably affects the safety of the Owners or any other Person, or for any other safety-related reason established by the Committee. The Committee may also prohibit an Owner from installing an Authorized Antenna on any real property which such Owner does not own or is not entitled to exclusively use or control under the Restrictions. The Committee also has the power to prohibit or restrict the installation of any antenna or other over-the-air receiving device that does not meet the definition of an Authorized Antenna above.

2.7.3 Review after Installation. The Committee may review the location and installation of an Authorized Antenna after it is installed. After its review, the Committee may require that the Authorized Antenna be moved to a preferred location (if one has been designated) for safety reasons or to comply with reasonable restrictions subject to this Section 2.7 and applicable law.

2.7.4 Restatement of Applicable Law. This Section is intended to be a restatement of the authority granted to the Committee under the law. All amendments, modifications, restatements and interpretations of the law applicable to the installation, use or maintenance of an antenna or other over-the-air receiving device shall be interpreted to amend, modify, restate or interpret this Section.

2.8. **TRASH.** No trash or recyclable materials may be kept or permitted upon the Properties or on any public street abutting or visible from the Properties except in containers located in the garage or other fenced in sideyard areas. Such containers may be exposed to the view of neighboring Lots only when set out at curbside for a reasonable period of time on trash collection days (not to exceed twelve (12) hours before and after scheduled trash collection hours). At all other times, Owners must store trash containers in the garage until scheduled collection times. Each Owner shall at all times maintain adequate space in the garage for storage of trash containers.

2.9. **IMPROVEMENTS.** EXCEPT FOR SUBSECTION 2.9.3, THIS SECTION 2.9 DOES NOT APPLY TO IMPROVEMENTS INSTALLED (a) AS A PART OF THE ORIGINAL CONSTRUCTION OF THE PROPERTIES BY DECLARANT, (b) BY THE ASSOCIATION, OR (c) WITH THE APPROVAL OF THE DESIGN REVIEW COMMITTEE.

2.9.1 **Outdoor Improvements.** Subject to Section 2.9 above, no Person may install any of the following outdoor Improvements: (a) clotheslines, balcony, patio or deck covers, wiring, air conditioning equipment, water softeners, other machines and other similar Improvements, (b) Improvements protruding through the walls or roofs of buildings, and (c) other exterior additions or alterations to any Lot. Outdoor patio or lounge furniture, plants and barbecue equipment may be kept in accordance with the Rules and Regulations.

2.9.2 **Indoor Improvements.** Owners may cover windows with clean white sheets for up to six (6) months following the Close of Escrow. No Person may paint any window or cover any window in foil. All exposed window coverings are subject to the Design Review Committee's approval of types and color. The Board has the right to specify in the Design Guidelines the types and colors of window coverings that may be exposed in the Properties. Nothing may be done in any Lot or in, on or to the Common Area which may impair the structural integrity of any building in the Properties or which structurally alters any such building except as otherwise expressly provided in this Declaration.

2.9.3 **Indemnity.** Neither the Declarant nor the Association are liable or responsible for any damage that results from Improvements constructed or modified by an Owner. Improvements should not be installed, constructed or modified without the assistance of qualified consultants.

2.10. **MECHANICS' LIENS.** No Owner may cause or permit any mechanic's lien to be filed against the Common Property or another Owner's Lot for labor or materials alleged to have been furnished or delivered for such Owner and any Owner who permits a mechanics' lien to be so filed shall cause the lien to be discharged within five (5) days after notice to the Owner from the Board. If the Owner fails to remove such mechanic's lien, the Board may discharge the lien and levy a Special Assessment against the violating Owner's Lot to recover the cost of discharge.

2.11. **FURTHER SUBDIVISION.** Except as otherwise provided in this Declaration, no Owner may physically or legally subdivide his Lot in any manner, including dividing such Owner's Lot into time-share estates or time-share uses. This provision does not limit the right of an Owner to (a) rent or lease his entire Lot by a written lease or rental agreement subject to this

Declaration; (b) sell such Owner's Lot; or (c) transfer or sell any Lot to more than one Person to be held by them as tenants-in-common, joint tenants, tenants by the entirety or as community property. Any failure by the tenant of the Lot to comply with the Restrictions constitutes a default under the lease or rental agreement.

2.12. DRAINAGE. No one may interfere with or alter the established drainage pattern over any Lot unless an adequate alternative provision is made for proper drainage with the Board's prior written approval. For the purpose of this Section, "established" drainage means, for any Phase, the drainage which (a) exists at the time of the first Close of Escrow in such Phase, or (b) is shown in any plan approved by the Board. Established drainage includes drainage from the Lots onto the Common Property and from the Common Property onto the Lots.

Each Owner, by accepting a grant deed to his Lot, acknowledges and understands that in connection with the development of the Properties, Declarant may have installed one or more "sub-drains" beneath the surface of such Owner's Lot. The sub-drains and all appurtenant improvements constructed or installed by Declarant ("*Drainage Improvements*"), if any, provide for subterranean drainage of water from and to various portions of the Properties. Drainage Improvements, if any, shall not be modified, removed or blocked without first making alternative drainage arrangements approved by the Board.

2.13. WATER SUPPLY SYSTEM. No individual water supply, sewage disposal or water softener system is permitted on any Lot unless such system is designed, located, constructed and equipped in accordance with the requirements of the Design Review Committee and all applicable governmental authorities.

2.14. VIEW OBSTRUCTIONS. Each Owner acknowledges that (a) there are no protected views in the Properties, and no Lot is assured the existence or unobstructed continuation of any particular view, and (b) any construction, landscaping or other installation of Improvements by Declarant or other Owners may impair the view from any Lot, and each Owner hereby consents to such view impairment.

2.15. SOLAR ENERGY SYSTEMS. Each Owner may install a solar energy system on his Lot which serves his Residence so long as (a) the design and location of the solar energy system meet the requirements of all applicable governmental ordinances, and (b) the design and location receive the prior written approval of the Design Review Committee.

2.16. INSTALLATION OF FRONT YARD LANDSCAPING. Each Owner shall complete the installation of landscaping on the front yard of such Owner's Lot in accordance with a plan approved by the Design Review Committee within six (6) months after the Close of Escrow. Each Owner shall obtain all permits necessary and shall comply with all requirements of the City.

2.17. RIGHTS OF DISABLED. Subject to Article VIII, each Owner may modify his Residence and the route over the Lot leading to the front door of his Residence, at his sole expense to facilitate access to his Residence by persons who are blind, visually impaired, deaf or

physically disabled, or to alter conditions which could be hazardous to such persons, in accordance with California Civil Code Section 1360 or any other applicable law.

2.18. **TEMPORARY BUILDINGS.** No outbuilding, tent, shack, shed or other temporary building or Improvement may be placed upon any portion of the Properties either temporarily or permanently, without the prior written consent of the Design Review Committee. No garage, carport, trailer, camper, motor home, recreation vehicle or other vehicle may be used as a residence in the Properties, either temporarily or permanently.

2.19. **COMMON PROPERTY.** The Common Property may not be altered without the Board's prior written consent. Landscaping installed and maintained on Common Property down-slopes shall be natural plant materials consistent with the revised master landscape plan approved by the City for the Properties. Such plant materials on Association Maintenance Areas affecting residential Lots shall not be altered by the Owners of such Lots.

2.20. **DRILLING.** No oil drilling, oil, gas or mineral development operations, oil refining, geothermal exploration or development, quarrying or mining operations of any kind may be conducted on the Properties, nor are oil wells, tanks, tunnels or mineral excavations or shafts permitted upon the surface of any Lot or within five hundred feet (500') below the surface of the Properties. No derrick or other structure designed for use in boring for water, oil, geothermal heat or natural gas may be erected, maintained or permitted on any Lot.

2.21. **POLLUTANT CONTROL.** The Properties are subject to all federal, state and local requirements of the National Pollutant Discharge Elimination System ("**NPDES**") adopted pursuant to the federal Clean Water Act. The City has adopted a Storm Water Pollution Prevention Plan for the Properties ("**SWPPP**") to reduce the discharge of pollutants to storm water facilities. The SWPPP may impose best management practices ("**BMPs**") to reduce pollutant discharge into storm and nuisance water run-off by Owners and the Association. Each Owner shall comply with the BMPs that are applicable to the Owner's Lot and the Association shall comply with the BMPs that are applicable to the Common Property. Copies of the NPDES General Permit, the SWPPP and BMPs that are applicable to the Properties are on file with the City.

2.22. **FUEL MODIFICATION AREAS.** A Fuel Management Zone Plan prepared for the Properties was approved by the City and the Association is responsible for maintaining the Common Property in accordance with its requirements. This Fuel Management Zone Plan delineates certain Fuel Modification Treatments and Zones, and requires certain Fuel Modification Areas to be created and maintained. The size or width of these Fuel Modification Areas are based on the proposed location of the Residences within the Properties, and requires certain minimum distances to be maintained between structures and native grasses, shrubs and plants. All Persons must comply with Fuel Modification Zone Plan setback requirements. These requirements may limit or prohibit any future additions or structures on the affected Lots or Common Property unless the boundaries of the applicable Fuel Modification Area can be modified. Such modification may only be accomplished by processing a prior written request for modification through the City. In many instances the Fuel Modification Areas cannot be changed because of possible impacts to native habitat and/or mitigation areas.

ARTICLE III DISCLOSURES

Because much of the information included in this Article (a) was obtained from other sources (for example, governmental and other public agencies and public records) and (b) is subject to change for reasons beyond the control of Declarant and the Association, the Declarant and the Association do not guarantee the accuracy or completeness of any of the information in this Article. Further, neither Declarant nor the Association undertakes to advise any Person of any changes affecting the disclosures in this Article.

3.1. NO REPRESENTATIONS OR WARRANTIES. No representations or warranties, express or implied, have been given by Declarant, the Association or their agents regarding the Properties, the Properties' physical condition, zoning, compliance with law, fitness for intended use, subdivision, sale, operation, maintenance, cost of maintenance, taxes or regulation of the Properties as a planned unit development, except as provided in this Declaration, filed by Declarant with the DRE, or provided by Declarant to the first Owner of a Lot.

3.2. ACCESS FACILITIES. Vehicular access into the Properties may be controlled by electronic entry gates located at the private street entrances into the Properties. There may also be controlled access pedestrian gates into the Properties. There are no representations that any entry gates will be installed or staffed. If staffing is temporarily provided, the schedule for commencing staffing operations and the hours of staffing will be subject to change as development progresses and will be affected by the construction and marketing access requirements of Declarant. Until the last Close of Escrow occurs in the Properties, (a) the access gates may be open to the general public, (b) Declarant may change the hours of access gate operation in its sole discretion without notice to accommodate construction and marketing activities, (c) interim access gate staffing may be provided or eliminated, and (d) operation of the access gate may be limited.

3.3. SECURITY AND PRIVACY DISCLAIMER. Access gates are not intended to provide security or privacy for persons, personal property or Lots in the Properties. Neither Declarant nor the Association undertakes to provide security or privacy for the Properties or Owners, nor do they make any representations or warranties concerning the security or privacy of the Properties or Owners.

3.4. EFFECT OF EXPANSIVE SOIL. The soil in the Properties may be composed of materials that have "expansive" characteristics. Owners should perform soils testing, use special construction techniques and take precautions when constructing new Improvements or modifying existing Improvements because the soil expands when it is wet and can cause Improvements to lift and crack. Owners should consider the following information and recommendations before making or modifying any Improvements:

3.4.1 Concrete and Masonry Improvements. Special attention is required in designing concrete and masonry Improvements such as masonry walls and planters, concrete slabs, pools, spas and decking. For example, steel reinforcing bars may be required in lieu of steel mesh in concrete patio slabs. Block walls may require extra horizontal and vertical steel

reinforcing bars. Pools and spas located at the top or bottom of a slope or on expansive soils may require special designs.

3.4.2 Drainage and Irrigation. Owners must use adequate drainage and irrigation control. The construction or modification of Improvements should not result in ponding of water. The landscape irrigation system should be designed and operated to prevent excessive saturation of soils. Water must drain away from footings and other Improvements and obstructions such as walls should not be constructed across swales unless adequate replacement drainage Improvements have been installed or created. Planters should be lined with an impervious surface and should contain outlets to drain excess water.

3.4.3 Slope Creep. While horizontal and vertical movement of a slope, caused by the expansive qualities of the soils (often described as "*slope creep*") is generally minor in nature and does not always occur, it may affect Improvements such as pools, spas, patios, walls, slabs, planters, decking and the like. Slope creep can cause pools, spas and walls to tilt and crack and may cause cracking or lifting in brickwork or concrete in a manner that will allow these Improvements to function yet not meet the Owner's cosmetic expectations. Professional soils and structural engineers should be retained to design such Improvements to mitigate the effects of slope creep and to ensure compliance with special rules for such Improvements that are required under the Uniform Building Code or other applicable regulations. If possible, Improvements should not be constructed within ten (10) feet of the edge, top or toe of a slope. Even with professional assistance, minor lifting and cracking can occur.

3.5. GRADING. The grading and drainage design in the Properties should not be altered in the course of installing Improvements in a manner that will redirect surface water flow toward the Residences or onto adjacent property or that will trap water so that it ponds or floods. Drainage devices such as concrete ditches, area drain lines and gutters should be carefully designed and installed with professional assistance then maintained in an unobstructed condition. Drainage devices installed by Declarant and designed to serve more than one Lot or the Common Property should not be altered in any manner that will redirect or obstruct the drainage through these drainage devices. Grading and drainage modifications are subject to law, approval by the Board, and the terms of any Recorded drainage easements.

3.6. ELECTRIC POWER LINES. Underground or overhead electric transmission and distribution lines and transformers are located in and around the Properties. The lines and transformers are owned, operated and maintained by San Diego Gas & Electric. Power lines and transformers produce extremely low-frequency electromagnetic fields ("*ELF-EMF*") when operating. For some time, there has been speculation in the scientific community about health risks associated with living near ELF-EMF sources. In 1992, the United States Congress authorized the Electric and Magnetic Fields Research and Public Information Dissemination Program ("*EMF-RAPID Program*") to perform research on these issues and to analyze the existing scientific evidence in order to clarify the potential for health risks from exposure to ELF-EMF. In May of 1999, the National Institute of Environmental Health Sciences ("*NIEHS*") issued a report to Congress summarizing its review of scientific data from over three hundred studies on ELF-EMF health risks. The ELF-EMF studies consist of both epidemiological studies (studies of exposure in human populations) and controlled laboratory experiments on animal and cell models. While some epidemiological studies suggested some link between certain health

effects and exposure to ELF-EMF, the laboratory experiments did not support such a link. According to the NIEHS report, the scientific evidence shows no clear pattern of health hazards from ELF-EMF exposure, and the NIEHS report did not find evidence of any link sufficient to recommend widespread changes in the design or use of electrical transmission equipment. However, because the evidence does not clearly rule out any effect, NIEHS advocated continuing inexpensive and safe reductions in exposure to ELF-EMF and endorsed current utility practices regarding design and siting of new transmission and distribution lines. Further information on this subject is available from the website of the California Department of Health Services, electric and Magnetic Fields Program <http://www.dhs.cahwnet.gov/ehib/emf/>, or on the EMF Hotline at (510) 622-4430. Additional information on ELF-EMF and copies of the NIEHS report are available from the EMF-RAPID website at <http://www.niehs.nih.gov/emfrapid/home/>.

3.7. RURAL AREA. The Properties are located in a rural area which includes various rural land uses. As a result of the rural character of the area in the vicinity of the Properties, Lots may be affected by wildlife, noises, odors, reptiles or insect life typically found in rural areas. Rattlesnakes, rodents, mountain lions and coyotes are some of the wildlife typically encountered in rural areas. Owners should expect to encounter insects of all types including flies, ticks, Africanized (killer) bees, mosquitoes, spiders, black and red fire ants, crickets and aphids. Declarant and the Association are not responsible for wildlife control or eradication.

3.8. PROPERTY LINES. The boundaries of each Lot in the Properties and the Common Area are delineated on subdivision (tract) maps, lot line adjustments or parcel maps that are public records and are available at the County Recorder's office.

3.9. SPECIAL TAX ASSESSMENT OR MELLO-ROOS COMMUNITY FACILITIES DISTRICTS. The Properties lie within the existing or proposed boundaries of the Lighting and Landscaping Community Facilities District CFD 98-02, the Police and Fire Community Facilities District CFD 98-01 and the Fire and Paramedics Community Facilities District No. 2001-01. CFD 98-02 provides financing for the ongoing maintenance of specific City street lighting and landscaping Improvements, which Improvements in the vicinity of the Properties are proposed to include the traffic signal at Aberdeen Avenue and Mission Road, any parkway, median and slope landscaping in or adjacent to Aberdeen Road, any fossil filters in storm drains on Aberdeen Road, and emptying of any trash cans on Aberdeen Road. These Community Facilities Districts have the power to levy special taxes to pay the cost of services or capital improvements provided by each district. The amount of the special taxes and any other information pertaining to any such districts can be obtained from the County Assessor's office.

3.10. PALOMAR COLLEGE. Palomar College is adjacent to the western perimeter of the Properties. Palomar College is a public two-year community college which enrolls approximately 30,000 full-time and part-time students. Owners may experience noise and traffic at all times of the day as a result of the normal operations of Palomar College.

3.11. CALIFORNIA STATE UNIVERSITY SAN MARCOS. California State University San Marcos is located approximately two miles to the southeast of the Properties. California State University San Marcos is a public college which covers approximately 304

acres. Owners may experience noise and traffic at all times of the day as a result of the normal operations of California State University San Marcos.

3.12. **RAILROAD.** There is a railroad right-of-way located near the southern perimeter of the Properties. The railroad right-of-way runs parallel to West Mission Road. The Burlington Northern Santa Fee Railroad currently owns the railroad right-of-way. Owners in the Properties may experience noise, dust and vibration from trains using the railroad right-of-way at all times of the day.

3.13. **HIGHWAY 78.** Highway 78 lies less than one mile to the south of the Properties. Highway 78 is a major west-east highway. Owners in the Properties may experience noise, dust and vibration from traffic at all times.

3.14. **ADJACENT NATURAL OPEN SPACE.** The Properties are adjacent to Lot F of San Marcos Tract No. 432, which lies northerly of Kirkwall Drive and Helmsdale Road. A portion of Lot F which abuts these streets, and Lots 60 and 61, consists of a slope area and a fuel modification/brush management area designated as Association Maintenance Area to be maintained by the Association. The balance of Lot F consisting of approximately 28 acres is subject to a perpetual easement for natural open space purposes dedicated to the City on the Subdivision Map of San Marcos Tract No. 432. Lot F may be fenced and the use of Lot F by the public, including Owners, their family members and guests, may be restricted or entirely prohibited by the City. Lot F may be conveyed in fee title to, and maintained by, a land conservancy organization which may further restrict or prohibit any public use of Lot F.

3.15. **CHANGE IN PLANS.** Declarant has the right to develop the Annexable Territory with Improvements that may be different in design, size, character, style and price from those in Phase I or any other Phase.

3.16. **NO ENHANCED PROTECTION AGREEMENT.** No representations or warranties, express or implied, by Declarant, and no provisions in this Declaration, in any Notice of Addition or Supplemental Declaration, or in the Master Declaration, are intended by Declarant to constitute, or shall be interpreted to constitute, an "enhanced protection agreement," as defined in Section 901 of the California Civil Code.

3.17. **ADDITIONAL PROVISIONS.** There may be provisions of various laws, including the Davis-Stirling Common Interest Development Act codified at Sections 1350 *et seq.* of the California Civil Code and the federal Fair Housing Act codified at Title 42 United States Code, Section 3601 *et seq.*, which may supplement or override the Restrictions. Declarant makes no representations or warranties regarding the future enforceability of any portion of the Restrictions.

ARTICLE IV VALLECITOS RIDGE ASSOCIATION

4.1. **GENERAL DUTIES AND POWERS.** The Association has the duties and powers listed in the Restrictions and also has the general and implied powers of a nonprofit mutual benefit corporation, generally to do all things that a corporation organized under the laws of the State of California may lawfully do which are necessary or proper in operating for the

general welfare of the Owners, subject only to the limits on the exercise of such powers listed in the Articles, Bylaws, this Declaration, and the Supplemental Declarations. Unless otherwise indicated in the Articles, Bylaws, this Declaration, or the Supplemental Declarations, the powers of the Association may be exercised by the Board.

4.2. SPECIFIC DUTIES AND POWERS. In addition to its general powers and duties, the Association has the following specific powers and duties.

4.2.1 Common Property. The power and duty to accept, maintain and manage the Common Property. The Association may install or remove capital Improvements on the Common Property. The Association may reconstruct, replace or refinish any Improvement on the Common Property.

4.2.2 Utilities. The power and duty to obtain all commonly metered water, gas and electric services, and the power but not the duty to provide for trash collection and cable or master television service.

4.2.3 Granting Rights. The power to grant exclusive or nonexclusive easements, licenses, rights of way or fee interests in the Common Area, to the extent any such grant is reasonably required (a) for Improvements to serve the Properties, (b) for purposes of conformity with the as-built location of Improvements installed or authorized by Declarant or the Association, (c) in connection with any lawful lot line adjustment, or (d) for other purposes consistent with the intended use of the Properties. The Association may deannex any portion of the Properties from the encumbrance of the Declaration in connection with any lawful lot line adjustment.

4.2.4 Employ Personnel. The power to employ Persons necessary for the effective operation and maintenance of the Common Property, including legal, management and accounting services.

4.2.5 Insurance. The power and duty to keep insurance for the Common Area.

4.2.6 Sewers and Storm Drains. The power and duty to maintain all private sewer systems (if any) and the private storm drains and private drainage facilities in the Common Property, including all concrete terrace drains therein.

4.2.7 Maintenance Requirements. The power and duty to (a) operate, maintain and inspect the Common Property and its various components in conformance with any Maintenance Requirements and any Maintenance Manual, and (b) review any Maintenance Manual for necessary or appropriate revisions no less than annually after the Board has prepared the Budget.

4.2.8 Rules and Regulations. The power but not the duty to establish, amend, restate, delete, and create exceptions to, the Rules and Regulations.

(a) *Standards for Enforceability.* To be valid and enforceable, a Rule must satisfy all the following requirements:

- (i) The Rule must be in writing;
- (ii) The Rule is within the authority of the Board conferred by law or by this Declaration, the Articles or the Bylaws;
- (iii) The Rule is not inconsistent with governing law, this Declaration, the Articles, or the Bylaws;
- (iv) The Rule is adopted, amended or repealed in good faith and in substantial compliance with the requirements of Sections 910 through 938, or succeeding provisions, of the California Civil Code;
- (v) The Rule is reasonable; and
- (vi) The Rule complies with the requirements of California Civil Code Section 1357.110 (as amended from time to time).

(b) **Areas of Regulation.** The Rules and Regulations may concern use of the Properties, signs, parking restrictions, minimum standards of property maintenance, and any other matter under the Association's jurisdiction.

(c) **Limits on Regulation.** The Rules and Regulations must apply uniformly to all Owners and must comply with this Declaration and all applicable state and local laws.

(d) **Procedure for Adoption, Amendment and Repeal.** Rules or procedures concerning (i) the use of Common Property, (ii) the use of a Lot, including any aesthetic standards or Design Guidelines that affect Lots, (iii) member discipline, including any schedule of monetary penalties for violation of the Restrictions, (iv) any procedure for the imposition of penalties, (v) any standards for delinquent assessment payment plans, and (vi) any procedures adopted by the Association for resolution of assessment disputes (each, a "**Covered Rule**") may only be adopted, amended or repealed in accordance with the following procedure:

(i) The Board must provide written notice ("**Rule Change Notice**") of a proposed change in a Covered Rule to the members at least thirty (30) days before making the change, except for an Emergency Rule Change (defined below). The Rule Change Notice must include the text of the proposed change and a description of the purpose and effect of the proposed change (a Rule Change Notice is not required if the Board determines that an immediate change is required to address an imminent threat to public health or safety, or an imminent risk of substantial economic loss to the Association);

(ii) The decision on a proposed change shall be made at a Board meeting after consideration of comments made by the members of the Association;

(iii) The Board shall deliver a notice of the adopted change ("**Adopted Rule Notice**") to every member of the Association within fifteen (15) days of adoption. If the change was an Emergency Rule Change, the Adopted Rule Notice shall include

the text of the Emergency Rule Change, a description of the purpose and effect of the Emergency Rule Change, and the date on which the Emergency Rule Change expires;

(iv) If the Board determines that an immediate Covered Rule change is required to address an imminent threat to public health or safety, or an imminent risk of substantial economic loss to the Association, it may make the change on an emergency basis ("*Emergency Rule Change*") and it need not send a Rule Change Notice under Section 4.2.9(d)(i) above. An Emergency Rule Change is effective for one hundred-twenty (120) days, unless the adopted change provides for a shorter effective period. Any change that is adopted as an Emergency Rule Change may not be re-adopted under authority of this subpart;

(v) A Rule Change Notice or an Adopted Rule Notice required by this Section 4.2.8(d) is subject to California Civil Code Section 1350.7; and

(vi) A Rule change made pursuant to this Section 4.2.8(d) may be reversed as provided in California Civil Code Section 1357.140.

The foregoing procedure does not apply to Rules that do not meet the definition of Covered Rules above, nor to decisions of the Board regarding maintenance of Common Property, a decision on a specific matter that is not intended to apply generally, a decision setting the amount of an Annual Assessment or a Special Assessment, a Rule change that is required by law if the Board has no discretion as to the substantive effect of the changes, or issuance of a document that merely repeats existing law or the governing documents.

4.2.9 Borrowings. The power, but not the duty, to borrow money for purposes authorized by the Articles, Bylaws, Declaration, any Supplemental Declarations or any Notice of Addition, and to use the Common Area as security for the borrowing.

4.2.10 Contracts. The power but not the duty to enter into contracts. This includes contracts with Owners or other Persons to provide services or to maintain Improvements in the Properties and elsewhere which the Association is not otherwise required to provide or maintain by this Declaration.

4.2.11 Indemnification.

(a) *For Association Representatives.* To the fullest extent authorized by law, the Association has the power and duty to indemnify Board members, Association officers, Design Review Committee members, and all other Association committee members for all damages, pay all expenses incurred, and satisfy any judgment or fine levied as a result of any action or threatened action brought because of performance of an act or omission within what such person reasonably believed to be the scope of the Person's Association duties ("*Official Act*"). Board members, Association officers, Design Review Committee members, and all other Association committee members are deemed to be agents of the Association when they are performing Official Acts for purposes of obtaining indemnification from the Association pursuant to this Section. The entitlement to indemnification under this Declaration inures to the benefit of the estate, executor, administrator and heirs of any person entitled to such indemnification.

(b) **For Other Agents of the Association.** To the fullest extent authorized by law, the Association has the power, but not the duty, to indemnify any other Person acting as an agent of the Association for damages incurred, pay expenses incurred, and satisfy any judgment or fine levied as a result of any action or threatened action because of an Official Act.

(c) **Provided by Contract.** The Association also has the power, but not the duty, to contract with any Person to provide indemnification in addition to any indemnification authorized by law on such terms and subject to such conditions as the Association may impose.

4.2.12 Annexing Additional Property. The power but not the duty to annex, pursuant to Article XVI, additional property to the Properties encumbered by this Declaration.

4.2.13 Vehicle Restrictions. The power granted in Section 2.5 to identify Authorized Vehicles or Prohibited Vehicles and to modify the restrictions on vehicles.

4.2.14 License and Use Agreements. The Association may enter into agreements with Declarant or any homeowners association having jurisdiction over the Annexable Territory to share facilities located on the Common Area with the owners of residences on Annexable Territory that is not annexed to the Properties. Any such agreement shall be in form and content acceptable to Declarant, the Board of Directors (without the approval of Owners) and the board of directors of any adjacent homeowners association and shall include provisions regarding use and sharing of maintenance costs for the shared facility.

4.2.15 Property Manager. The power and the duty to hire a professional Manager employed as an independent contractor or agent working at its own place of business. The Association shall hire the Manager to manage and implement the Restrictions, subject to the overview of the Board and in accordance with applicable law.

4.2.16 Prohibited Functions.

(a) **Off-site Nuisances.** The Association shall not use any Association funds or resources to abate any annoyance or nuisance emanating from outside the physical boundaries of the Properties.

(b) **Political Activities.** The Association shall not (i) participate in federal, state or local political activities or activities intended to influence a governmental action affecting areas outside the boundaries of the Properties (for example, endorsement or support of (A) legislative or administrative actions by a local governmental authority, (B) candidates for elected or appointed office, or (C) ballot proposals), or (ii) conduct, sponsor, participate in or expend funds or resources toward any activity, campaign or event, including any social or political campaign, event or activity which is not directly and exclusively pertaining to the authorized activities of the Association. There shall be no amendment of this Section so long as Declarant owns the Properties or Annexable Territory.

4.2.17 Standing to Resolve Disputes. The Association shall have standing to institute, defend, settle or intervene in litigation, alternative dispute resolution or administrative proceedings (each, an "Action") in its own name as the real party in interest and without joining

the Owners, in matters pertaining to (i) damage to the Common Area, (ii) damage to portions of Lots which the Association is obligated to maintain or repair, and (iii) damage to portions of Lots which arises out of, or is integrally related to, damage to the Common Area or portions of Lots that the Association is obligated to maintain or repair (each, a "*Claim*").

Upon commencement of an Action by the Association pertaining to any Claim described in subparts (i), (ii) or (iii) above, the Association's standing shall be exclusive, and during the pendency of such Action, the Owners shall be barred from commencing a new Action or maintaining a pending Action on the same Claim. The Association's exercise of exclusive standing as to an Action on a particular Claim shall not be deemed to give rise to any affirmative obligation on the part of the Association to maintain, settle or dismiss the Action, except in the Association's sole discretion, and subject to Section 12.4

4.3. STANDARD OF CARE, NONLIABILITY.

4.3.1 Scope of Powers and Standard of Care.

(a) *General Scope of Powers.* Rights and powers conferred on the Board, the Design Review Committee or other committees or representatives of the Association by the Restrictions are not duties, obligations or disabilities charged upon those Persons unless the rights and powers are explicitly identified as including duties or obligations in the Restrictions or law. Unless a duty to act is imposed on the Board, the Design Review Committee or other committees or representatives of the Association by the Restrictions or law, the Board, the Design Review Committee and the committees have the right to decide to act or not act. Any decision to not act is not a waiver of the right to act in the future.

(b) *Business Affairs.* This Section 4.3.1(b) applies to Board member actions in connection with management, personnel, maintenance and operations, insurance, contracts and finances, and Design Review Committee member actions. Each Board member shall perform his duties in good faith, in a manner the Board member believes to be in the best interests of the Association and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances. When performing his duties, a Board member is entitled to rely on information, opinions, reports or statements, including financial data prepared or presented by:

(i) One or more officers or employees of the Association whom the Board member believes to be reliable and competent in the matters presented;

(ii) Counsel, independent accountants or other Persons as to matters which the Board member believes to be within such Person's professional or expert competence; or

(iii) A committee of the Board upon which the Board member does not serve, as to matters under its designated authority, which committee the Board member believes to merit confidence, so long as the Board member acts in good faith, after reasonable inquiry when the need is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

This Section 4.3.1(b) is intended to be a restatement of the business judgment rule established in applicable law. All modifications and interpretations of the business judgment rule applicable to the Association shall be interpreted to modify and interpret this Section 4.3.1(b).

(c) **Association Governance.** This Section 4.3 applies to Board actions and Design Review Committee decisions in connection with interpretation and enforcement of the Restrictions, architectural and landscaping control, regulation of uses within the Properties, rule making and oversight of committees. Actions taken or decisions made in connection with these matters shall be reasonable, fair and nondiscriminatory.

4.3.2 Nonliability.

(a) **General Rule.** No Person is liable to any other Person (other than the Association or a party claiming in the name of the Association) for injuries or damage resulting from such Person's Official Acts, except to the extent that such injuries or damage result from the Person's willful or malicious misconduct. No Person is liable to the Association (or to any party claiming in the name of the Association) for injuries or damage resulting from such Person's Official Acts, except to the extent that such injuries or damage result from such Person's negligence or willful or malicious misconduct. The Association is not liable for damage to property in the Properties unless caused by the negligence of the Association, the Board, the Association's officers, the Manager or the Manager's staff.

(b) **Nonliability of Volunteer Board Members and Officers.** A volunteer Board member or volunteer Association officer shall not be personally liable to any Person who suffers injury, including bodily injury, emotional distress, wrongful death or property damage or loss as a result of the tortious act or omission of the volunteer officer or Board member if all applicable conditions specified in Section 1365.7 of the California Civil Code are met.

4.4. MEMBERSHIP.

4.4.1 **Generally.** Every Owner shall automatically acquire a Membership in the Association and retain the Membership until such Owner's Lot ownership ceases, at which time such Owner's Membership shall automatically cease. Ownership of a Lot is the sole qualification for Membership. Memberships are not assignable except to the Person to whom title to the Lot is transferred, and every Membership is appurtenant to and may not be separated from the fee ownership of such Lot.

4.4.2 **Transfer.** The Membership of any Owner may not be transferred, pledged or alienated in any way, except on the transfer or encumbrance of such Owner's Lot, and then only to the transferee or Mortgagee of such Lot. A prohibited transfer is void and will not be reflected in the records of the Association. Any Owner who has sold his Lot to a contract purchaser under an agreement to purchase may delegate the Owner's Membership rights to the contract purchaser. The delegation must be in writing and must be delivered to the Association before the contract purchaser may vote. The contract seller shall remain liable for all Assessments attributable to the contract seller's Lot which accrue before title to the Lot is

transferred. If the contract seller fails or refuses to delegate his Membership rights to the contract purchaser before the Close of Escrow, the Association may record the transfer to the contract purchaser in the Association's records. However, no contract purchaser will be entitled to vote at Association meetings during the term of a purchase contract without satisfactory evidence of the delegation of the contract seller's Membership rights to the contract purchaser. The Association may levy a reasonable transfer fee against a new Owner and such Owner's Lot (which fee shall be paid through escrow or added to the Annual Assessment chargeable to such new Owner) to reimburse the Association for the administrative cost of transferring the Membership to the new Owner on the Association's records. Such fee may not exceed the Association's actual cost involved in changing its records.

4.4.3 Classes of Membership.

(a) *Voting Membership.* The Association classes of voting Membership are as follows:

(i) *Class A.* Class A members are all Owners except Declarant for so long as a Class B Membership exists. Class A members are entitled to one (1) vote for each Lot owned and subject to Assessment. Declarant shall become a Class A member on conversion of Declarant's Class B Membership. The vote for each Lot shall be exercised in accordance with Section 4.5.1, but no more than one (1) Class A vote may be cast for any Lot.

(ii) *Class B.* The Class B member is Declarant. The Class B member is entitled to three (3) votes for each Lot owned by Declarant and subject to Assessment. The Class B Membership shall convert to Class A Membership on the first to occur of the following events:

(1) The second anniversary of the first Close of Escrow in the most recent Phase; or

(2) The fourth anniversary of the first Close of Escrow in Phase 1.

(b) *Class C Appointment Right.* The Class C Membership is a Board appointment right, and it shall not be considered a part of the voting power of the Association for any other purpose. The Class C member shall be Declarant. The Class C Membership entitles Declaration to select a majority of the members of the Board of Directors until the Class C Termination Date. The "*Class C Termination Date*" shall be the earlier to occur of the following events:

(i) The Close of Escrow for the sale of seventy-eight (78) Lots in the Properties and Annexable Territory;

(ii) The fourth (4th) anniversary of the first Close of Escrow in the Phase for which a Final Subdivision Public Report was most recently issued by the DRE; or

(iii) The tenth (10th) anniversary of the first Close of Escrow for the sale of a Lot in the Properties.

4.5. VOTING RIGHTS.

4.5.1 **Limits Generally.** All voting rights are subject to the Restrictions. Except as provided in Sections 4.5.2 and 12.3 of this Declaration and Section 4.8 of the Bylaws, as long as there exists a Class B Membership, any provision of the Restrictions which expressly requires the vote or written consent of a specified percentage (instead of a majority of a quorum) of the Association's voting power before action may be undertaken shall require the approval of such specified percentage of the voting power of both the Class A and Class B Membership. Except as provided in Section 12.3 of this Declaration and Section 4.8 of the Bylaws, on termination of the Class B Membership, any provision of the Restrictions which expressly requires the vote or written consent of Owners representing a specified percentage (instead of a majority of a quorum) of the Association's voting power before action may be undertaken shall then require the vote or written consent of Owners representing such specified percentage of both (1) the Association's total voting Class A power and (2) the Association's Class A voting power represented by Owners other than Declarant.

4.5.2 **Vote to Initiate Construction Defect Claims.** Commencing on the date of the first annual meeting of Owners, Declarant relinquishes control over the Association's ability to decide whether to initiate a construction defect claim under the Right to Repair Law (a "*Defect Claim*"). This means that Declarant, current employees and agents of Declarant, Board members who are appointed by Declarant, Board members elected by a majority of votes cast by Declarant, and all other Persons whose vote or written consent is inconsistent with the intent of the preceding sentence, are prohibited from participating and voting in any decision of the Association or Owners to initiate a Defect Claim.

4.5.3 **Joint Ownership.** When more than one (1) Person holds an interest in any Lot ("*co-owners*"), each co-owner may attend any Association meeting, but only one (1) co-owner shall be entitled to exercise the single vote to which the Lot is entitled. Co-owners owning the majority interests in a Lot may designate in writing one (1) of their number to vote. Fractional votes shall not be allowed. The vote for each Lot shall be exercised, if at all, as a unit. Where no voting co-owner is designated or if the designation is revoked, the vote for the Lot shall be exercised as the co-owners owning the majority interests in the Lot agree. Unless the Association receives a written objection in advance from a co-owner, it shall be conclusively presumed that the voting co-owner is acting with his co-owners' consent. No vote may be cast for any Lot if the co-owners present in person or by proxy owning the majority interests in such Lot fail to agree to the vote or other action. The nonvoting co-owner or co-owners are jointly and severally responsible for all obligations imposed on the jointly-owned Lot and are entitled to all other benefits of ownership. All agreements and determinations lawfully made by the Association in accordance with the voting percentages established in the Restrictions are binding on all Owners and their successors in interest.

4.6. REPAIR AND MAINTENANCE.

4.6.1 By Owners.

(a) *The Lot.* Each Owner shall maintain, at his sole expense, all of his Lot, and the Residence and all other Improvements on the Owner's Lot, including any tubular

steel fence constructed along the top or toe of a rear yard slope, in a clean, sanitary and attractive condition, and in conformance with any applicable Maintenance Requirements. However, each Owner shall not be responsible for maintaining those portions of the Lot or Improvements thereon that are defined as Association Maintenance Areas in this Declaration or in a Notice of Addition. Each Owner shall pay when due all charges for any utility service separately metered to his Lot.

(b) **Party Walls.** Each wall or fence built as a part of the original construction of the Residences upon the Properties and placed on the dividing line between the Lots (the "**Party Wall**") is a party wall, and, to the extent not inconsistent with the provisions of this Section, the general rules of law regarding party walls and liability for property damage due to negligence or willful acts or omissions apply thereto.

(i) **Sharing of Repair and Maintenance.** The cost of reasonable repair and maintenance of a Party Wall shall be shared equally by the Owners of the Lots connected by such Party Wall. However, each Owner shall be solely responsible for repainting the side of any Party Wall facing his Lot.

(ii) **Destruction by Fire or Other Casualty.** Unless covered by a blanket insurance policy maintained by the Association under Section 8.1, if a Party Wall is destroyed or damaged by fire or other casualty, any Owner whose Lot is affected thereby may restore it, and the Owner of the other Lot affected thereby shall contribute equally to the cost of restoration thereof without prejudice, however, to the right of any such Owner to call for a larger contribution from the other under any rule of law regarding liability for negligent or willful acts or omissions.

(iii) **Weatherproofing.** Notwithstanding any other provision of this Article, an Owner who by his negligent or willful act causes a Party Wall to be exposed to the elements or to deteriorate or require repair or replacement shall bear the whole cost of furnishing the necessary protection against such elements or the necessary repairs or replacement.

(iv) **Right to Contribution Runs With Land.** The right of any Owner to contribution from any other Owner under this Article is appurtenant to the land and passes to such Owner's successors in title.

(c) **Other Responsibilities.** Each Owner whose Lot utilizes a sewer system lateral is responsible for the maintenance and repair of that portion of the lateral which exclusively serves such Owner's Lot.

4.6.2 By Association.

(a) **Commencement of Obligations.**

(i) **Common Area.** The Association's obligation to maintain the Common Area in a Phase composed solely of Common Area shall commence on conveyance of such Common Area to the Association. The Association's obligation to maintain the

Common Area in any Phase that includes Lots commences on the date Annual Assessments commence on Lots in the Phase.

(ii) Association Maintenance Areas Generally. The Association's obligation to maintain Association Maintenance Areas in a Phase commences when Annual Assessments commence on Lots in such Phase, unless the terms of the reservation or grant of easement for such Association Maintenance Area provides otherwise. Until the Association is responsible for maintaining the Common Property, Declarant shall maintain the Common Property.

(iii) Association Maintenance Areas in Phase I. The Association's obligation to maintain Association Maintenance Areas in Phase I commences when Annual Assessments commence in the Phase consisting of Lots 9 to 29 and 31 to 43, all inclusive, of San Marcos Tract No. 432. Until the Association is responsible for maintaining the Association Maintenance Areas in any Phase, the Declarant shall maintain the Association Maintenance Areas in that Phase.

(b) **Maintenance Standards.** Subject to Articles IX and X, the Association shall maintain the Common Property and Improvements thereon in a clean, sanitary and attractive condition reasonably consistent with the level of maintenance reflected in the most current Budget, and in conformance with any applicable Maintenance Requirements. Unless otherwise provided in the Maintenance Requirements, the Board shall determine, in its sole discretion, the level and frequency of maintenance provided by the Association.

(c) **Maintenance Items.** Subject to the provisions for commencement of maintenance, above, the Association shall maintain all Common Property, including without limitation the following:

(i) The private street pavement, curb, gutter, sidewalks (if any), street lights and entry gate facilities on Common Area Lots 105 through 108.

(ii) The private drainage systems on portions of Lots designated as Association Maintenance Area including without limitation bench drains, terrace drains, catch basins, pipelines, outlet structures and other related facilities.

(iii) The private drainage and storm drain systems on Common Area, including without limitation private storm drain catch basins, pipelines, fossil filters and related storm drain facilities.

(iv) The detention basin and the subsurface storm water contaminant separator facility on Lot D, and any other water quality facilities on Common Area.

(v) The Common Area and Association Maintenance Area landscaping, irrigation, lighting (if any) and other Improvements within the Lot D park and within Lots A, B, C, E and portions of Lot 104.

(vi) The Association Maintenance Area slope landscaping, irrigation, drainage facilities (if any) and fuel modification/brush management areas within open space Lot F, to be owned by others.

(vii) The Association Maintenance Area verduca (keystone) wall constructed near the southern perimeter of the Properties, on or adjacent to portions of Lot C.

(d) *Replacement of Landscaping.* The Association shall not be responsible for replacing any landscaping it unavoidably damages or removes on a residential Lot in the course of maintaining Improvements in Association Maintenance Areas.

4.6.3 Inspection of the Properties. The Board shall require strict compliance with all provisions of this Declaration and shall periodically cause a compliance inspection of the Property to be conducted by the Design Review Committee to report any violations thereof. The Board shall also cause the Common Property and all Improvements thereon to be inspected to determine the condition of those Improvements ("*Condition Inspections*"). Condition Inspections shall be conducted in conformance with the applicable Maintenance Requirements, and in the absence of inspection frequency recommendations in any applicable Maintenance Requirements at least once every three (3) years, in conjunction with the inspection required for the reserve study to be conducted pursuant to Section 2.10 of the Bylaws. Condition Inspections shall, at a minimum, (a) determine whether the Common Property is being maintained adequately in accordance with the standards of maintenance established in Section 4.6.2, (b) identify the condition of the Common Property and any Improvements thereon, including the existence of any hazards or defects, and the need for performing additional maintenance, refurbishment, replacement, or repair, and (c) recommend preventive actions which may be taken to reduce potential maintenance costs to be incurred in the future. The Board shall, during its meetings, regularly determine whether the recommended inspections and maintenance activities set forth in any applicable Maintenance Requirements have been followed and, if not followed, what corrective steps need to be taken to assure proper inspections and maintenance of the Common Property. The Board shall keep record of such determinations in the Board's minutes. The Board shall keep Declarant fully informed of the Board's activities under this Section 4.6.3. The Board shall employ, consistent with reasonable cost management, such experts, contractors and consultants as are necessary to perform the inspections and make the reports required by this Section.

The Board shall prepare a report of the results of each of the inspections required by this Section. Reports shall be furnished to Owners within the time set for furnishing the Budget to the Owners. The report of a Condition Inspection must include at least the following:

(a) a description of the condition of the Common Property, including a list of items inspected, and the status of maintenance, repair and need for replacement of all such items;

(b) a description of all maintenance, repair and replacement planned for the ensuing Fiscal Year and included in the Budget;

(c) if any maintenance, repair or replacement is to be deferred, the reason for such deferral;

(d) a summary of all reports of inspections performed by any expert, contractor or consultant employed by the Association to perform inspections since the Board's last condition inspection report;

(e) a report of the status of compliance with the maintenance, replacement and repair needs identified in the inspection report for preceding years and identified in any applicable Maintenance Requirements; and

(f) such other matters as the Board considers appropriate.

For a period of ten (10) years after the date of the last Close of Escrow in the Community, the Board shall also furnish to Declarant (a) the report of each Condition Inspection performed for the Board, whenever such inspection is performed and for whatever portion of the Common Property that is inspected, within thirty (30) days after the completion of such inspection, and (b) the most recent condition inspection report prepared for any portion of the Common Property, within ten (10) days after the Association's receipt of a written request therefor from Declarant.

4.6.4 Damage by Owners. Each Owner is liable to the Association for any damage to the Properties caused by the act of an Owner, his Family, guests, tenants or invitees, or any other persons deriving their right to use the Properties from the Owner, or such Owner's Family, tenants and guests. The Association may, after Notice and Hearing, (a) determine whether any claim shall be made on the Association's insurance, and (b) levy a Special Assessment equal to the cost of repairing the damage or any deductible paid and the increase, if any, in insurance premiums directly attributable to the damage caused by such Owner or the person for whom such Owner may be liable as described in this Declaration. If a Lot is jointly owned, the liability of its Owners is joint and several, except to the extent that the Association has previously contracted in writing with the joint owners to the contrary. After Notice and Hearing, the cost of correcting the damage shall be a Special Assessment against such Owner.

ARTICLE V DESIGN REVIEW COMMITTEE

5.1. MEMBERS OF COMMITTEE. The Design Review Committee shall be composed of three (3) members. The initial members of the Design Review Committee shall be representatives of Declarant until one (1) year after the original issuance of the Final Subdivision Public Report ("*Public Report*") for the Properties ("*First Anniversary*"). After the First Anniversary the Board may appoint and remove one (1) member of the Design Review Committee, and Declarant may appoint and remove a majority of the members of the Design Review Committee and fill any vacancy of such majority, until the earlier to occur of (a) Close of Escrow for the sale of ninety percent (90%) of all the Lots in the Properties, or (b) the fifth anniversary of the original issuance of the Public Report for the Properties, after which the Board may appoint and remove all members of the Design Review Committee. Design Review Committee members appointed by the Board must be Owners, but Design Review Committee

members appointed by Declarant need not be Owners. Board members may serve as Design Review Committee members.

5.2. POWERS AND DUTIES.

5.2.1 **General Powers and Duties.** The Design Review Committee shall consider and act upon all plans and specifications submitted for its approval, including inspection of work in progress to assure conformance with plans approved by the Design Review Committee, and shall perform such other duties as the Board assigns to it.

5.2.2 **Issuance of Standards.** The Design Review Committee may recommend to the Board changes to the Design Guidelines. The Design Guidelines may require a fee to accompany each application for approval, and may identify additional factors which the Design Review Committee will consider in reviewing submissions. The Design Guidelines may provide that application fees be uniform, or that fees be determined by the Design Review Committee in any other reasonable manner. The Design Guidelines may require such detail in plans and specifications submitted for review as the Design Review Committee deems proper, including landscape plans, floor plans, site plans, drainage plans, elevation drawings and descriptions or samples of exterior materials and colors.

5.2.3 **Retaining Consultants.** The Design Review Committee has the power but not the duty to retain Persons to advise its members in connection with decisions; however, the Design Review Committee does not have the power to delegate its decision-making power, except in accordance with Section 5.4 below.

5.3. REVIEW OF PLANS AND SPECIFICATIONS.

5.3.1 **Improvements Requiring Approval.** No construction, installation or alteration of an Improvement, including landscaping, in the Properties may be commenced until the plans and specifications therefor showing the nature, kind, shape, height, width, color, materials and location thereof have been submitted to and approved in writing by the Design Review Committee; however, any Improvement may be repainted without Design Review Committee approval so long as the Improvement is repainted the identical color which it was last painted. The provisions of this Article apply to construction, installation and alteration of solar energy systems, as defined in Section 801.5 of the California Civil Code, subject to the provisions of California Civil Code Section 714, the City Building Code, zoning regulations, and other laws.

5.3.2 **Application Procedure.** Until changed by the Board, the address for the submission of such plans and specifications is the Association's principal office. The form of application used by the Design Review Committee may include spaces allowing "Adjacent Owners" to sign or initial the application confirming that they have been notified of the application. The Design Review Committee may establish a definition of "Adjacent Owners" in its design guidelines. Applications will be complete and may be approved or disapproved by the Design Review Committee even if all of the Adjacent Owners do not initial the applications so long as the Owner submitting plans and specifications ("*Applicant*") certifies that the Applicant has asked the Adjacent Owners to sign the applications.

The Design Review Committee may reject the application for approval if it determines that the Applicant's plans and specifications are incomplete. The Design Review Committee shall transmit its decision and the reasons therefor to the Applicant at the address listed in the application for approval within forty-five (45) days after the Design Review Committee receives all required materials. Any application submitted shall be deemed approved unless the Design Review Committee transmits written disapproval or a request for additional information or materials to the Applicant within forty-five (45) days after the date the Design Review Committee receives all required materials.

5.3.3 Standard for Approval. The Design Review Committee shall approve plans and specifications submitted for its approval only if it determines that (a) installation, construction or alterations of the Improvements in the locations indicated will not be detrimental to the appearance of the surrounding area of the Properties as a whole, (b) the appearance of any structure affected by the proposed Improvements will be in harmony with the surrounding structures, (c) installation, construction or alteration of the proposed Improvements will not detract from the beauty, wholesomeness and attractiveness of the Properties or the enjoyment thereof by the Owners, (d) maintenance of the proposed Improvements will not become a burden on the Association, and (e) the proposed Improvements are consistent with this Declaration.

The Design Review Committee may condition its approval of proposals or plans and specifications for any Improvement on any of the following: (i) the Applicant's furnishing the Association with security acceptable to the Association against any mechanic's lien or other encumbrance which may be Recorded against the Properties as a result of such work, (ii) such changes therein as the Design Review Committee considers appropriate, (iii) the Applicant's agreement to grant easements made necessary by the Improvement to the Association, (iv) the Applicant's agreement to install water, gas, electrical or other utility meters to measure any increased consumption, (v) the Applicant's agreement to reimburse the Association for the cost of such maintenance, or (vi) the Applicant's agreement to complete the proposed work within a stated period of time. The Design Review Committee may require submission of additional plans and specifications or other information before approving or disapproving material submitted. The Applicant shall meet any review or permit requirements of the City before making any construction, installation or alterations permitted under this Declaration.

The Design Review Committee's approval or disapproval shall be based solely on the considerations listed in this Article. The Design Review Committee is not responsible for reviewing, nor may its approval of any plan or design be deemed approval of, any plan or design from the standpoint of structural safety or conformance with building or other codes.

5.4. MEETINGS AND ACTIONS OF THE DESIGN REVIEW COMMITTEE.

The Design Review Committee shall meet as necessary to perform its duties. So long as a majority of the members of the Design Review Committee are Declarant representatives, the Design Review Committee may, by resolution unanimously adopted in writing, designate a Design Review Committee Representative (who may, but need not, be one of its members) to take any action or perform any duties for and on behalf of the Design Review Committee except the granting of variances. In the absence of such designation, the vote or written consent of a majority of the Design Review Committee constitutes an act of the Design Review Committee. All approvals issued by the Design Review Committee must be in writing. Verbal approvals

issued by the Design Review Committee, any individual Design Review Committee member or any other representative of the Association are not valid, are not binding on the Association and may not be relied on by any Person.

5.5. NO WAIVER OF FUTURE APPROVALS. The Design Review Committee's approval of any proposals or plans and specifications or drawings for any work done or proposed or in connection with any matter requiring the Design Review Committee's approval does not waive the right to withhold approval of any similar proposals, plans and specifications, drawings or matters subsequently or additionally submitted for approval.

5.6. COMPENSATION OF MEMBERS. The Design Review Committee's members shall receive no compensation for services rendered, other than reimbursement for expenses incurred by them in performing their duties.

5.7. INSPECTION OF WORK. The Design Review Committee or its duly authorized representative may inspect any work for which approval of plans is required under this Article ("*Work*"). The right to inspect includes the right to require any Owner to take such action as may be necessary to remedy any noncompliance with the Design Review Committee-approved plans for the Work or with the requirements of this Declaration ("*Noncompliance*").

5.7.1 Time Limit. The Design Review Committee's right to inspect the Work and notify the responsible Owner of any Noncompliance shall terminate sixty (60) days after the Work is completed and the Design Review Committee receives written notice on a form provided by the Committee from the Owner that the Work is completed. If the Design Review Committee fails to send a notice of Noncompliance to an Owner before this time limit expires, the Work shall be deemed to comply with the approved plans.

5.7.2 Remedy. If an Owner fails to remedy any Noncompliance within sixty (60) days after the date of notice from the Design Review Committee, the Design Review Committee may take action as authorized in Section 12.1.1.

5.8. VARIANCES. The Design Review Committee may authorize variances from compliance with any of the architectural provisions of this Declaration or the Design Guidelines including restrictions on height, size, floor area or placement of structures, or similar restrictions, when circumstances such as topography, natural obstructions, hardship, aesthetic or environmental consideration require. Such variances must be evidenced in writing, must be signed by a majority of the Design Review Committee, and become effective on Recordation. After Declarant's right to appoint a majority of the Design Review Committee's members expires, the Board must approve any variance recommended by the Design Review Committee before any such variance becomes effective. If variances are granted, no violation of the covenants, conditions and restrictions in this Declaration shall be deemed to have occurred with respect to the matter for which the variances were granted. The granting of a variance does not waive any of the provisions of this Declaration for any purpose except as to the particular property and particular provision of this Declaration covered by the variance, nor does it affect the Owner's obligation to comply with all laws affecting the use of his Lot.

5.9. **PRE-APPROVALS.** The Design Review Committee may authorize pre-approval of specified types of construction activities if, in the exercise of the Design Review Committee's judgment, such preapproval is appropriate in carrying out the purposes of the Restrictions.

5.10. **APPEALS.** So long as Declarant has the right to appoint and remove a majority of the Design Review Committee's members, the Design Review Committee's decisions are final. There is no appeal to the Board. After Declarant's right to appoint a majority of the Design Review Committee's members expires, the Board may adopt policies and procedures for appeal of Design Review Committee decisions to the Board. The Board has no obligation to adopt or implement any appeal procedures. In the absence of Board adoption of appeal procedures, all Design Review Committee decisions are final.

ARTICLE VI PROPERTY EASEMENTS AND RIGHTS

6.1. EASEMENTS.

6.1.1 **Utility Easements.** Declarant reserves easements to install and maintain utilities in the Common Area for the benefit of the Owners and their Lots. Declarant reserves the right to grant additional easements and rights-of-way throughout the Properties to utility companies and public agencies as it deems necessary for the proper development of the Properties. Declarant's right shall expire on the Close of Escrow for the sale of the last Lot in the Properties and the Annexable Territory.

6.1.2 **Encroachments.** Declarant reserves, for its benefit and for the benefit of Owners and their Lots, a reciprocal easement appurtenant to each Lot over the other Lots and the Common Area to accommodate (a) any existing encroachment of any wall or any other Improvement installed by Declarant or approved by the Architectural Committee, and (b) shifting, movement or natural settling of the Residences or other Improvements.

6.1.3 **Completion of Improvements.** Declarant reserves the right and easement to enter the Properties to complete any Improvement which Declarant considers desirable to implement Declarant's development plan.

6.1.4 **Owners' Easements in Common Area.** Declarant reserves, for the benefit of every Owner, his Family, tenants and guests, nonexclusive easements for (a) use and enjoyment of the Common Area, and (b) vehicular and pedestrian access over the Common Area. This easement is appurtenant to and passes with title to every Lot in the Properties.

6.1.5 **Easements for Maintenance of Association Maintenance Areas.** Declarant reserves, for the benefit of the Association, nonexclusive easements over each Lot in the Properties and the Annexable Territory as necessary for access and maintenance of Association Maintenance Areas described and depicted in this Declaration or in a Notice of Addition.

6.1.6 Access Easements.

(a) *Reserved for Declarant and the Annexable Territory.* Declarant reserves for its benefit and for the benefit of the owners of Residences that may be constructed in the Annexable Territory (whether annexed to the Properties or not) easements for pedestrian and vehicular access, including construction access, over all Common Area streets and sidewalks located within the Properties.

(b) *Reserved for Model Homes.* Declarant reserves for its benefit easements for pedestrian and vehicular ingress and egress over the private streets and through the entry gates serving the Properties during business hours, seven (7) days per week, for access to those homes within the Properties which are used by Declarant, or its assignee, for model homes or sales offices, as permitted by the City. Declarant shall have the right to assign this easement, by written assignment, to any successor in interest. This easement shall terminate when the use of such homes by Declarant or its assignee, for model homes or sales office purposes, has been permanently terminated.

(c) *Interim Access for Association and Owners.* Declarant reserves for the benefit of the Association and the Owners, a nonexclusive interim access easement ("*Interim Access Easement*") over all of Lot 108 of San Marcos Tract No. 432. Declarant may grant additional Interim Access Easements in future Phases as necessary to provide legal access, in accordance with Declarant's development plan. Interim Access Easements are granted for purposes of vehicular and pedestrian access, but they create no obligation on the Association or Owners to maintain the Improvements subject to the Interim Access Easement. An Interim Access Easement created in any Phase shall be effective when described and conveyed to the Association in an instrument Recorded with the first Close of Escrow in such Phase, and shall automatically terminate as to any portion of a street that is conveyed in fee to the Association. An Interim Access Easement shall be subject to relocation and termination by Declarant in order to accommodate Declarant's construction activities, provided such relocation and termination (i) is set forth in a Recorded instrument signed by Declarant, and (ii) does not prevent legal access to any Lot in the Properties.

6.1.7 **Drainage Easements.** Declarant reserves for the benefit of the Properties, the Owners and the Association, reciprocal nonexclusive easements for drainage of water over, across and on the Properties.

6.1.8 **Master Telecommunications Easement.** Declarant reserves blanket easements ("*Telecommunications Easements*") over the Properties for access and for purposes of constructing, installing, locating, altering, operating, maintaining, inspecting, upgrading, removing and enhancing Telecommunications Facilities ("*Telecommunications Purposes*") for the benefit of Declarant and the Properties. Such easements are freely transferable by Declarant to any other Person and their successors and assigns. No one, except for Declarant, and Declarant's transferees may use the Properties for Telecommunications Purposes. All Telecommunications Facilities shall be owned, leased or licensed by Declarant, as determined by Declarant, in its sole discretion and business judgment. Transfer of the Properties does not imply transfer of any Telecommunications Easements or Telecommunications Facilities. Exercise of Telecommunications Easements shall not unreasonably interfere with the reasonable use and

enjoyment of the Properties by the Owners. If the exercise of any Telecommunications Easement results in damage to the Properties, the holder of the Telecommunications Easement shall, within a reasonable period of time, repair such damage. If Declarant has not conveyed the Telecommunications Easements in a Phase to another Person before the first Close of Escrow in that Phase, then Declarant hereby grants the Telecommunications Easements for that Phase to the Association effective as of the first Close of Escrow in the Phase.

6.2. **RIGHT TO GRANT EASEMENTS.** Declarant reserves easements over the Common Area owned for the exclusive use by an Owner or Owners of contiguous property as a yard, recreational, gardening, and landscaping area. Any such easement may be conveyed by the Declarant before the last Close of Escrow for sale of a Lot in the Properties and the Annexable Territory. Such conveyance must be approved by the Board, which approval must not be unreasonably withheld. The purpose of the easement, the portion of the Common Area affected, the Lot to which the easement is appurtenant, and any restrictions on use of the easement area shall be identified in a Recorded grant of easement.

6.3. **DELEGATION OF USE.** Any Owner may delegate his right to use the Common Area in writing to his tenants, contract purchasers or subtenants who reside in such Owner's Residence, subject to regulation by the Board.

6.4. **RIGHT OF ENTRY.**

6.4.1 **Association.** The Association has the right to enter the Lots to inspect the Properties, and may take whatever corrective action it determines to be necessary or proper. Entry onto any Lot under this Subsection may be made after at least three (3) days' advance written notice to the Owner of the Lot except for emergency situations, which shall not require notice. Nothing in this Subsection limits the right of an Owner to exclusive occupancy and control over the portion of his Lot that is not Common Property. Any damage to a Residence or Lot caused by entry under this Subsection shall be repaired by the Association.

6.4.2 **Declarant.** The Declarant has the right to enter the Lots (i) to complete and repair any improvements or landscaping located thereon as determined necessary or proper by the Declarant, in its sole Discretion, (ii) to comply with requirements for the recordation of the Map or the grading or construction of the Properties, and (iii) to comply with requirements of applicable governmental agencies. Declarant shall provide reasonable notice to Owner prior to entry into the Owner's Lot under this Subsection except for emergency situations, which shall not require notice. Nothing in this Subsection limits the right of an Owner to exclusive occupancy and control over the portion of his Lot that is not Common Property. Any damage to a Residence or Lot caused by entry under this Subsection shall be repaired by the Declarant. Unless otherwise specified in the initial grant deed of a Lot from Declarant, this right of entry shall automatically expire ten (10) years from the last Close of Escrow for the sale of a Lot in the Properties.

6.4.3 **Owners.** Each Owner shall permit other Owners, and their representatives, to enter his Lot to perform installations, alterations or repairs to the mechanical or electrical services to a Lot if (a) requests for entry are made in advance, (b) entry is made at a time reasonably convenient to the Owner whose Lot is to be entered; and (c) the entered Lot is

left in substantially the same condition as existed immediately preceding such entry. Any damage to the Lot caused by entry under this Subsection shall be repaired by the entering Owner.

**ARTICLE VII
ASSOCIATION MAINTENANCE AND ASSESSMENTS**

7.1. PERSONAL OBLIGATION TO PAY ASSESSMENTS. Each Owner covenants to pay to the Association Assessments established and collected pursuant to this Declaration. The Association shall not levy or collect any Assessment that exceeds the amount necessary for the purpose for which it is levied. All Assessments, together with late payment penalties, interest, costs, and reasonable attorney fees for the collection thereof, are a charge and a continuing lien on the Lot against which such Assessment is made. Each Assessment, together with late payment penalties, interest, costs and reasonable attorney fees, is also the personal obligation of the Person who was the Owner of the Lot when the Assessment accrued. The personal obligation for delinquent Assessments may not pass to any new Owner unless expressly assumed by the new Owner or unless the Owner has actual or constructive knowledge of such delinquent Assessments, whether by virtue of the Recordation of a Notice of Delinquent Assessment or receipt from the Association of a certificate pursuant to Section 1368(a)(4) of the California Civil Code.

7.2. ASSOCIATION FUNDS. The Association shall establish no fewer than two (2) separate Association Maintenance Funds into which shall be deposited all money paid to the Association and from which disbursements shall be made. The Association Maintenance Funds may be established as trust accounts at a banking or savings institution and shall include: (a) an "operating fund" for current Common Expenses, (b) an adequate "reserve fund" for the portion of Common Expenses allocated to (i) reserves for Improvements which the Board does not expect to perform on an annual or more frequent basis, and (ii) payment of deductible amounts for insurance policies which the Association obtains, and (c) any other funds which the Association may establish.

7.3. PURPOSE OF ASSESSMENTS. The Assessments shall be used exclusively to (a) promote the Owners' welfare, (b) operate, improve and maintain the Common Property, and (c) discharge any other Association obligations under the Declaration. Disbursements from the operating fund shall be made by the Association for such purposes as are necessary for the discharge of its responsibilities in this Declaration for the common benefit of all Owners, other than those purposes for which disbursements from the Reserve Fund are to be used. Disbursements from the Reserve Fund shall be made by the Association only for the purposes specified in this Article and in Section 1365.5(c) of the California Civil Code.

7.4. WAIVER OF USE. No Owner may exempt himself from personal liability for Assessments, nor release such Owner's Lot from the liens and charges thereof, by waiving use and enjoyment of the Common Area or by abandoning such Owner's Lot.

7.5. LIMITS ON ANNUAL ASSESSMENT INCREASES.

7.5.1 Maximum Authorized Annual Assessment For Initial Year of Operations. During the Fiscal Year in which Annual Assessments commence, the Board may

levy an Annual Assessment per Lot in an amount which exceeds one hundred twenty percent (120%) of the amount of Annual Assessments disclosed for the Properties in the most current Budget filed with and approved by the DRE only if the Board first obtains the approval of Owners casting a majority of votes at a meeting or election of the Association in which more than fifty percent (50%) of the Lots are represented ("*Increase Election*"). This Section does not limit Annual Assessment increases necessary for addressing an "*Emergency Situation*" as defined in Section 7.5.5.

7.5.2 Maximum Authorized Annual Assessment For Subsequent Fiscal Years. During the Fiscal Years following the Fiscal Year in which Annual Assessments commence, the Board may levy Annual Assessments which exceed the Annual Assessments for the immediately preceding Fiscal Year only as follows:

(a) If the increase in Annual Assessments is less than or equal to twenty percent (20%) of the Annual Assessments for the immediately preceding Fiscal Year, then the Board must either (i) have distributed the Budget for the current Fiscal Year in accordance with Section 1365(a) of the California Civil Code, or (ii) obtain the approval of Owners casting a majority of votes in an Increase Election; or

(b) If the increase in Annual Assessments is greater than twenty percent (20%) of the Annual Assessments for the immediately preceding Fiscal Year, then the Board must obtain the approval of Owners casting a majority of votes in an Increase Election.

This Section does not limit Annual Assessment increases necessary for addressing an "*Emergency Situation*" as defined in Section 7.5.5.

7.5.3 Supplemental Annual Assessments. If the Board determines that the Association's essential functions may be properly funded by an Annual Assessment in an amount less than the maximum authorized Annual Assessment described above, it may levy such lesser Annual Assessment. If the Board determines that the estimate of total charges for the current year is or will become inadequate to meet all Common Expenses, it shall immediately determine the approximate amount of the inadequacy. Subject to the limits described in Sections 7.5.1, 7.5.2 and 7.5.5, the Board may levy a supplemental Annual Assessment reflecting a revision of the total charges to be assessed against each Lot. To minimize the need for frequent adjustments in the amount of the Annual Assessments during the development of the Properties, the Board may stabilize the amount of the Annual Assessments invoiced to the Owners at a level amount calculated to defray annual Common Expenses during the time that Annual Assessments are fluctuating due to the periodic annexation of Lots and Common Area.

7.5.4 Automatic Assessment Increases. Despite any other provisions of this Section 7.5, on Declarant's annexation of the Annexable Territory, the Annual Assessment shall be automatically increased by the additional amount, if any, necessary to maintain the Common Property identified in the Notice of Addition as a part of the Phase that includes the Annexable Territory so long as (a) the annexation is permitted by the DRE, and (b) the amount of such increase does not result in the levy of an Annual Assessment which is greater than the maximum potential Annual Assessment disclosed in all Final Subdivision Public Reports for the Properties.

7.5.5 Emergency Situations. For purposes of Sections 7.5.1, 7.5.2 and 7.7, an "Emergency Situation" is any one of the following:

- (a) An extraordinary expense required by an order of a court;
- (b) An extraordinary expense necessary to maintain the portion of the Properties for which the Association is responsible where a threat to personal safety on the Properties is discovered; and
- (c) An extraordinary expense necessary to maintain the portion of the Properties for which the Association is responsible that could not have been reasonably foreseen by the Board when preparing the Budget. Before imposing or collecting an Assessment pursuant to this Subparagraph (c), the Board shall adopt a resolution containing written findings regarding the necessity of the extraordinary expense involved and why the expense was not or could not have been reasonably foreseen in the budgeting process. The resolution shall be distributed to the Owners with the notice of the assessment.

7.6. COMMENCEMENT AND COLLECTION OF ANNUAL ASSESSMENTS. Upon the first day of the first calendar month following the first Close of Escrow in a Phase, Annual Assessments shall commence as to the Lots in that Phase only. Annual Assessments shall commence on all Lots in a Phase on the first day of the first calendar month following the first Close of Escrow in such Phase, except Annual Assessments on any Lot being used by Declarant or its assignee as a model home or sales office shall not commence until the first day of the first month following Declarant's termination of use of the Lot as a model home or sales office. All Annual Assessments shall be assessed uniformly and equally against the Owners and their Lots based on the number of Lots owned by each Owner, except as may be otherwise provided in a Supplemental Declaration. Annual Assessments for fractions of a month shall be prorated. Declarant shall pay its full pro rata share of the Annual Assessments on all unsold Lots for which Annual Assessments have commenced. The Board shall fix the amount of the Annual Assessment against each Lot at least thirty (30) days in advance of each Annual Assessment period. However, unless otherwise established by the Board, the initial Annual Assessments shall be assessed in accordance with the most recent Budget on file with and approved by the DRE. Written notice of any change in the amount of any Annual Assessment, Capital Improvement Assessment or Reconstruction Assessment shall be sent via first-class mail to every Owner subject thereto not less than thirty (30) nor more than sixty (60) days before the increased Assessment becomes due.

The Board has the power to require that funds in the operating fund at the end of the Fiscal Year be retained and used to reduce the following Fiscal Year's Annual Assessments. On dissolution of the Association incident to the abandonment or termination of the Properties as a planned development, any amounts remaining in any of the Maintenance Funds shall be distributed to or for the benefit of the Owners in the same proportions as such money was collected from the Owners.

Each Owner shall pay Annual Assessments in installments at such frequency, in such amounts and by such methods as are established by the Board. If the Association incurs additional expenses because of a payment method selected by an Owner, the Association may

charge that expense to the Owner. The Association does not have to apportion the expense among all Owners as a part of Annual Assessments. Each installment of Annual Assessments may be paid to the Association in one check or in separate checks as payments attributable to specified Association Maintenance Funds. If any payment of an Annual Assessment installment (1) is less than the amount assessed and (2) does not specify the Association Maintenance Fund or Funds into which it should be deposited, then the amount received shall be credited in order of priority first to the operating fund, until that portion of the Annual Assessment has been satisfied, and second to the Reserve Fund.

7.7. CAPITAL IMPROVEMENT ASSESSMENTS. The Board may levy, in any Fiscal Year, a Capital Improvement Assessment or Reconstruction Assessment to defray, in whole or in part, the cost of any construction, repair or replacement of a capital Improvement to the Common Property. No Capital Improvement Assessments in any Fiscal Year which, if added to the Capital Improvement Assessments already levied during such Fiscal Year, exceed five percent (5%) of the Association's Budgeted gross expenses for such Fiscal Year, may be levied without the vote or written consent of Owners casting a majority of votes at an Increase Election. The Board may levy in any Fiscal Year, a Capital Improvement Assessment applicable to that Fiscal Year which exceeds five percent (5%) of the Association's Budgeted gross expenses for such Fiscal Year if such increase is necessary for addressing an Emergency Situation as defined in Section 7.5.5.

ARTICLE VIII INSURANCE

8.1. DUTY TO OBTAIN INSURANCE; TYPES. The Association shall obtain and keep in effect at all times the following insurance coverages:

8.1.1 Public Liability. Adequate public liability insurance (including coverage for medical payments), with limits acceptable to FNMA and as required by Section 1365.9 of the California Civil Code, insuring against liability for bodily injury, death and property damage arising from the activities of the Association and the Owners on the Common Area.

8.1.2 Fire and Casualty Insurance. Fire and casualty insurance with extended coverage, without deduction for depreciation, in an amount as near as possible to the full replacement value of all insurable Improvements on the Common Property. The casualty insurance shall not include earthquake coverage unless the Board is directed to obtain earthquake coverage by a majority of the Association's voting power.

8.1.3 Fidelity Insurance. Fidelity insurance coverage for any Person handling funds of the Association, whether or not such persons are compensated for their services, in an amount not less than the estimated maximum of funds, including reserve funds, in the custody of the Person during the term of the insurance. The aggregate amount of the fidelity insurance coverage may not be less than the sum equal to one-fourth (1/4) of the Annual Assessments on all Lots in the Properties, plus reserve funds.

8.1.4 Insurance Required by FNMA, GNMA and FHLMC. Casualty, flood, liability and fidelity insurance meeting the insurance requirements for planned unit developments

established by FNMA, GNMA and FHLMC, so long as any of these entities is a Mortgagee or Owner of a Lot in the Properties, except to the extent such coverage is not reasonably available or has been waived in writing by the entity requiring the insurance coverage.

8.1.5 Other Insurance. Such other insurance insuring other risks customarily insured by associations managing planned unit developments similar in construction, location and use. Such additional insurance shall include general liability insurance and director's and officer's errors and omissions insurance in the minimum amounts established in Section 1365.7 of the California Civil Code.

8.1.6 Beneficiaries. The Association's insurance shall be kept for the benefit of the Association, the Owners, and the Mortgagees, as their interests may appear as named insureds, subject, however, to loss payment requirements established in this Declaration.

8.2. WAIVER OF CLAIM AGAINST ASSOCIATION. All policies of insurance kept by or for the benefit of the Association and the Owners must provide that the Association and the Owners waive and release all claims against one another, the Board and Declarant, to the extent of the insurance proceeds available, whether or not the insurable damage or injury is caused by the negligence of or breach of any agreement by any of the Persons.

8.3. RIGHT AND DUTY OF OWNERS TO INSURE. The Association will not obtain insurance for individual Owner's Lots. Each Owner is responsible for insuring his personal property and all other property and Improvements on his Lot. Nothing in this Declaration precludes any Owner from carrying any public liability insurance he considers desirable; however, Owners' policies may not adversely affect or diminish any coverage under any of the Association's insurance policies. Duplicate copies of Owners' insurance policies shall be deposited with the Association on request. If any loss intended to be covered by the Association's insurance occurs and the proceeds payable are reduced due to insurance carried by any Owner, such Owner shall assign the proceeds of the Owner's insurance to the Association, to the extent of such reduction, for application to the same purposes as the reduced proceeds are to be applied.

8.4. NOTICE OF EXPIRATION REQUIREMENTS. If available, each of the Association's insurance policies must contain a provision that the policy may not be canceled, terminated, materially modified or allowed to expire by its terms, without at least ten (10) days' prior written notice to the Board and Declarant, and to each Owner and Mortgagee, insurer and guarantor of a first Mortgage who has filed a written request with the carrier for such notice and every other Person in interest who requests such notice of the insurer. In addition, fidelity insurance shall provide that it may not be canceled or substantially modified without at least ten (10) days' prior written notice to any insurance trustee named pursuant to Section 8.5 and to each FNMA servicer who has filed a written request with the carrier for such notice.

8.5. TRUSTEE FOR POLICIES. The Association is trustee of the interests of all named insureds under the Association's insurance policies. Unless an insurance policy provides for a different procedure for filing claims, all claims must be sent to the insurance carrier or agent by certified mail and be clearly identified as a claim. The Association shall keep a record of all claims made. All insurance proceeds under any Association insurance policies must be

paid to the Board as trustees. The Board has the authority to negotiate loss settlements with insurance carriers, with participation, to the extent the Board desires, of first Mortgagees who have filed written requests within ten (10) days of receipt of notice of any damage or destruction as provided in Section 9.3. Any two (2) officers of the Association may sign a loss claim form and release form in connection with the settlement of a loss claim, and such signatures are binding on all the named insureds. A representative chosen by the Board may be named as an insured, including a trustee with whom the Association may enter into an insurance trust agreement and any successor to such trustee, who shall have exclusive authority to negotiate losses under any insurance policy and to perform such other functions necessary to accomplish this purpose.

8.6. ACTIONS AS TRUSTEE. Except as otherwise specifically provided in this Declaration, the Board has the exclusive right to bind the Association and the Owners to all matters affecting insurance carried by the Association, the settlement of a loss claim, and the surrender, cancellation, and modification of all such insurance. Duplicate originals or certificates of all policies of fire and casualty insurance kept by the Association and of all renewals thereof, together with proof of payment of premiums, shall be delivered by the Association to all Owners and Mortgagees who requested them in writing.

8.7. ANNUAL INSURANCE REVIEW. The Board shall review the Association's insurance policies at least annually. If economically feasible, the Board shall obtain a current appraisal of the full replacement value of the Improvements on the Common Property, without deduction for depreciation, from a qualified independent insurance appraiser, before each such annual review.

8.8. REQUIRED WAIVER. All of the Association's insurance policies insuring against physical damage must provide, if reasonably possible, for waiver of:

8.8.1 Subrogation of claims against the Owners and tenants of the Owners;

8.8.2 Any defense based on coinsurance;

8.8.3 Any right of setoff, counterclaim, apportionment, proration or contribution due to other insurance not carried by the Association;

8.8.4 Any invalidity, other adverse effect or defense due to any breach of warranty or condition caused by the Association, any Owner or any tenant of any Owner, or arising from any act or omission of any named insured or the respective agents, contractors and employees of any insured;

8.8.5 Any right of the insurer to repair, rebuild or replace, and, if the Improvement is not repaired, rebuilt or replaced following loss, any right to pay under the insurance an amount less than the replacement value of the Improvements insured;

8.8.6 Notice of the assignment of any Owner of his interest in the insurance by virtue of a conveyance of any Lot;

8.8.7 Any right to require any assignment of any Mortgage to the insurer;

8.8.8 Any denial of an Owner's claim because of negligent acts by the Association or other Owners; and

8.8.9 Prejudice of the insurance by any acts or omissions of Owners that are not under the Association's control.

ARTICLE IX DESTRUCTION OF IMPROVEMENTS

9.1. **RESTORATION OF THE PROPERTIES.** Except as otherwise authorized by the Owners, if any portion of the Properties which the Association is responsible for maintaining is destroyed, the Association shall restore the same to its former condition as promptly as practical. The Association shall use the proceeds of its insurance for reconstruction or repair of the Properties unless otherwise authorized in this Declaration or by the Owners. The Board shall commence such reconstruction promptly. The Properties shall be reconstructed or rebuilt substantially in accordance with the original construction plans if they are available, unless changes recommended by the Design Review Committee have been approved by the Owners. If the insurance proceeds amount to at least ninety-five percent (95%) of the estimated cost of restoration and repair, the Board shall levy a Reconstruction Assessment to provide the additional funds necessary for such reconstruction. If the insurance proceeds amount to less than ninety-five percent (95%) of the estimated cost of restoration and repair, the Board may levy a Reconstruction Assessment and proceed with the restoration and repair only if both of the following conditions ("*Conditions to Reconstruction*") have been satisfied: (a) the levy of a Reconstruction Assessment to pay the costs of restoration and repair of the Properties is approved by the Owners, and (b) within one (1) year after the date on which the destruction occurred, the Board Records a certificate of the resolution authorizing the restoration and repair ("*Reconstruction Certificate*"). If either of the Conditions to Reconstruction does not occur following a destruction for which insurance proceeds available for restoration and repair are less than ninety-five percent (95%) of the estimated cost of restoration and repair, then the Board shall deposit the funds in the operating fund.

9.2. **DAMAGE TO RESIDENCES-RECONSTRUCTION.** If all or any portion of any Residence or other Improvements on a Lot is damaged or destroyed by fire or other casualty, the Owner of such Lot shall rebuild, repair or reconstruct the Residence and Improvements in a manner which will restore them substantially to their appearance and condition immediately before the casualty or as otherwise approved by the Design Review Committee. The Owner of any damaged Lot or Residence and the Design Review Committee shall proceed with all due diligence, and the Owner shall cause reconstruction to commence within six (6) months after the damage occurs and to be completed within twelve (12) months after damage occurs, unless prevented by causes beyond such Owner's reasonable control. The transfer of a damaged Lot or a Lot with a damaged Residence to another Person will not extend the time allowed in this Section for commencement and completion of reconstruction by the transferee. However, no such transferee will be required to commence or complete reconstruction in less than thirty (30) days from the date the transferee acquired title to the Lot.

9.3. **NOTICE TO OWNERS AND LISTED MORTGAGEES.** The Board, immediately on having knowledge of any damage or destruction affecting a material portion of

the Common Area, shall promptly notify all Owners and Mortgagees, insurers and guarantors of first Mortgages on Lots in the Properties who have filed a written request for such notice with the Board.

ARTICLE X EMINENT DOMAIN

The term "*taking*" as used in this Article means condemnation by exercise of the power of eminent domain or by sale under threat of the exercise of the power of eminent domain. The Board shall represent the Owners in any proceedings, negotiations, settlements, or agreements regarding takings. All takings proceeds shall be payable to the Association for the benefit of the Owners and their Mortgagees, and shall be distributed to such Owners and Mortgagees as provided in this Article.

10.1. **CONDEMNATION OF COMMON AREA.** If there is a taking of the Common Area, then the award in condemnation shall be paid to the Association and shall be deposited in the operating fund.

10.2. **CONDEMNATION OF LOTS.** If there is a taking of a Lot, the award in condemnation shall be paid to the Owner of the Lot; however, such award shall first be applied to the balance then due on any Mortgages encumbering such Owner's Lot, in order of priority.

10.3. **NOTICE TO OWNERS AND MORTGAGEES.** The Board, on learning of any condemnation proceeding affecting a material portion of the Common Area, or any threat thereof, shall promptly notify all Owners and those Mortgagees, insurers and guarantors of Mortgages on Lots in the Properties who have filed a written request for such notice with the Association.

ARTICLE XI RIGHTS OF MORTGAGEES

11.1. **GENERAL PROTECTIONS.** No amendment or violation of this Declaration defeats or renders invalid the rights of the Mortgagee under any Mortgage encumbering one (1) or more Lots made in good faith and for value, provided that after the foreclosure of any such Mortgage, such Lot(s) will remain subject to this Declaration. For purposes of this Declaration, "*first Mortgage*" means a Mortgage with first priority over other Mortgages or Deeds of Trust on a Lot, and "*first Mortgagee*" means the Mortgagee of a first Mortgage. For purposes of any provisions of the Restrictions which require the vote or approval of a specified percentage of first Mortgagees, such vote or approval is determined based on one (1) vote for each Lot encumbered by each such first Mortgage.

11.2. **ADDITIONAL RIGHTS.** In order to induce VA, FHA FHLMC, GNMA and FNMA to participate in the financing of the sale of Lots, the following provisions are added hereto (and to the extent these added provisions conflict with any other provisions of the Restrictions, these added provisions control):

11.2.1 **Notices.** Each Mortgagee, insurer and guarantor of a Mortgage encumbering one (1) or more Lots, upon filing a written request for notification with the Board,

is entitled to written notification from the Association of: (a) any condemnation or casualty loss which affects either a material portion of the Properties or the Lot(s) securing the respective first Mortgage; (b) any delinquency of sixty (60) days or more in the performance of any obligation under the Restrictions, including the payment of assessments or charges owed by the Owner(s) of the Lot(s) securing the Mortgage, which notice each Owner hereby consents to and authorizes; and (c) a lapse, cancellation, or material modification of any policy of insurance or fidelity bond kept by the Association.

11.2.2 Right of First Refusal. Each Owner, including each first Mortgagee of a Mortgage encumbering any Lot who obtains title to such Lot pursuant to (a) the remedies provided in such Mortgage, (b) foreclosure of the Mortgage, or (c) deed or assignment in lieu of foreclosure, is exempt from any "right of first refusal" created or purported to be created by the Restrictions.

11.2.3 Unpaid Assessments. Each first Mortgagee of a first Mortgage encumbering any Lot who obtains title to such Lot pursuant to the remedies provided in such Mortgage or by foreclosure of such Mortgage, shall take title to such Lot free and clear of any claims for unpaid assessments or charges against such Lot which accrued before the time such Mortgagee acquires title to such Lot.

11.2.4 Association Records. All Mortgagees, insurers and guarantors of first Mortgages, on written request to the Association, shall have the right to:

- (a) examine current copies of the Association's books, records and financial statements and the Restrictions during normal business hours; and
- (b) receive written notice of all meetings of Owners; and
- (c) designate in writing a representative who shall be authorized to attend all meetings of Owners.

11.2.5 Payment of Taxes. First Mortgagees may, jointly or singly, pay taxes or other charges which are in default and which may or have become a charge against any Common Area property and may pay any overdue premiums on hazard insurance policies, or secure new hazard insurance coverage on the lapse of a policy, for Common Area, and the Association shall immediately reimburse first Mortgagees who made such payments.

11.2.6 Intended Improvements. All intended Improvements in any Phase other than Phase 1 shall be substantially consistent with the Improvements in Phase 1 in structure type and quality of construction. The requirements of this Section are for the benefit of and may be enforced only by FNMA.

11.2.7 Contracts. The Board may enter into such contracts or agreements on behalf of the Association as are required in order to satisfy the guidelines of VA, FHA, FHLMC, FNMA, GNMA or any similar entity, so as to allow for the purchase, insurance or guaranty, as the case may be, by such entities of first Mortgages encumbering Lots improved with Residences. Each Owner hereby agrees that it will benefit the Association and the Owners, as a class of potential Mortgage borrowers and potential sellers of their Lots, if such agencies

approve the Properties as a qualifying subdivision under their respective policies, rules and regulations. Each Owner hereby authorizes his Mortgagees to furnish information to the Board concerning the status of any Mortgage encumbering a Lot.

ARTICLE XII ENFORCEMENT

12.1. ENFORCEMENT OF RESTRICTIONS. All violations of the Restrictions, other than those described in Sections 12.2 and 12.3 or regulated by Civil Code Section 1375, shall be resolved as follows:

12.1.1 Violations Identified by the Association. If the Board or the Design Review Committee determines that there is a violation of the Restrictions, other than nonpayment of any Assessment, then the Board shall give written notice to the responsible Owner identifying (a) the condition or violation complained of, and (b) the length of time the Owner has to remedy the violation including, if appropriate, the length of time the Owner has to submit plans to the Design Review Committee and the length of time the Owner has to complete the work proposed in the plans submitted to the Design Review Committee. If an Owner does not perform corrective action as within the allotted time, the Board, after Notice and Hearing, may remedy such condition or violation complained of, and the cost thereof shall be charged to the Owner as a Special Assessment.

12.1.2 Violations Identified by an Owner. If an Owner alleges that another Person is violating the Restrictions (other than nonpayment of any Assessment), the complaining Owner must first submit the matter to the Board for Notice and Hearing before the complaining Owner may resort to alternative dispute resolution, as required by Section 1354 of the California Civil Code, or litigation for relief.

12.1.3 Legal Proceedings. Failure to comply with any of the terms of the Restrictions by any Person is grounds for relief which may include an action to recover damages, injunctive relief, foreclosure of any lien, or any combination thereof; however, the procedures established in Section 1354 of the California Civil Code and in Sections 12.1.1 and 12.1.2 must first be followed, if they apply.

12.1.4 Additional Remedies. The Board may adopt a schedule of reasonable fines or penalties which, in its reasonable discretion, the Board may assess against a Person for the failure of such Person to comply with the Restrictions. Such fines or penalties may only be assessed after Notice and Hearing. After Notice and Hearing, the Board may direct the officers of the Association to Record a notice of noncompliance (if allowed by law) against a Lot owned by any Owner who has violated any provision of this Declaration. The notice shall include a legal description of the Lot and shall specify the provision of the Declaration that was violated, the violation committed, and the steps required to remedy the noncompliance. Once the noncompliance is remedied or the noncomplying Owner has taken such other steps as reasonably required by the Board, the Board shall direct the officers of the Association to Record a notice that the noncompliance has been remedied.

12.1.5 **No Waiver.** Failure to enforce any provision of this Declaration does not waive the right to enforce that provision, or any other provision of this Declaration.

12.1.6 **Right to Enforce.** The Association and any Owner may enforce the Restrictions as described in this Article, subject to Section 1354 of the California Civil Code. Each Owner has a right of action against the Association for the Association's failure to comply with the Restrictions. Each remedy provided for in this Declaration is cumulative and not exclusive or exhaustive.

12.1.7 **Limit on Expenditures.** The Association may not incur litigation expenses, including attorneys' fees, or borrow money to fund litigation, where the Association initiates legal proceedings or is joined as a plaintiff in legal proceedings, unless the Association first obtains the consent of the Owners (excluding the voting power of any Owner who would be a defendant in such proceedings) and, if applicable, complies with the requirements of Section 1354 of the California Civil Code. Such approval is not necessary if the legal proceedings are initiated (a) to enforce the use restrictions contained in Article II, (b) to enforce the architectural and landscaping control provisions contained in Article V, (c) to collect any unpaid Assessments levied pursuant to the Restrictions, (d) for a claim, other than a Defect Claim (defined in Section 4.5.2) the total value of which is less than five hundred thousand dollars (\$500,000), or (e) as a cross-complaint in litigation to which the Association is already a party. If the Association decides to use or transfer reserve funds or borrow funds to pay for any litigation, the Association must notify the Owners of the decision by mail. Such notice shall provide an explanation of why the litigation is being initiated or defended, why operating funds cannot be used, how and when the reserve funds will be replaced or the loan will be repaid, and a proposed budget for the litigation. The notice must state that the Owners have a right to review an accounting for the litigation which will be available at the Association's office. The accounting shall be updated monthly. If the Association action to incur litigation expenses or borrow money to fund litigation concerns a Defect Claim, then the voting requirements of both Sections 4.5.2 and 12.1.7 must be met.

12.2. NONPAYMENT OF ASSESSMENTS.

12.2.1 **Delinquency.** Assessments are delinquent if not paid within fifteen (15) days after the due date established by the Association. Assessments not paid within thirty (30) days after the due date, plus all reasonable costs of collection (including attorneys' fees) and late charges bear interest at the maximum rate permitted by law commencing thirty (30) days after the due date until paid. The Association may also require the delinquent Owner to pay a late charge in accordance with California Civil Code Section 1366(d)(2). The Association need not accept any tender of a partial payment of an Assessment and all costs and attorneys' fees attributable thereto. Acceptance of any such tender does not waive the Association's right to demand and receive full payment.

12.2.2 Creation and Release of Lien.

(a) **Priority of Lien.** All liens levied in accordance with this Declaration shall be prior and superior to (i) any declaration of homestead Recorded after the Recordation of this Declaration, and (ii) all other liens, except (1) all taxes, bonds, Assessments

and other levies which, by law, would be superior thereto, and (2) the lien or charge of any first Mortgage of Record (meaning any Recorded Mortgage with first priority or seniority over other Mortgages) made in good faith and for value and Recorded before the date on which the "Notice of Delinquent Assessment" (described in this Section) against the assessed Lot was Recorded.

(b) **Prerequisite to Creating Lien.** Before the Association may place a lien on an Owner's Lot to collect a past due Assessment, the Association shall send written notice ("**Notice of Intent to Lien**"), at least thirty (30) days prior to recording of such lien, to the Owner by certified mail which contains the following information: (i) the fee and penalty procedure of the Association, (ii) an itemized statement of the charges owed by the Owner, including the principal owed, any late charges, any interest, and the method of calculation, any attorneys' fees, (iii) the collection practices used by the Association, (iv) a statement that the Association may recover reasonable costs of collecting past due Assessments, (v) a statement that the Owner has the right to inspect the Association's records, pursuant to California Corporations Code Section 8333, (vi) the following statement in 14-point boldface type or all capital letters: "**IMPORTANT NOTICE: IF YOUR SEPARATE INTEREST IS PLACED IN FORECLOSURE BECAUSE YOU ARE BEHIND IN YOUR ASSESSMENTS, IT MAY BE SOLD WITHOUT COURT ACTION,**" (vii) a statement that the Owner shall not be liable to pay the charges, interest and costs of collection if it is determined the Assessment was paid on time to the Association, and (viii) a statement that the Owner has the right to request a meeting with the Board, as provided by California Civil Code Section 1367.1(c) and Section 12.2.2(d) below.

(c) **Dispute by Owner.** An Owner may dispute the Notice of Intent to Lien by submitting to the Board a written explanation of the reasons for the Owner's dispute. The Board shall respond in writing to the Owner within fifteen (15) days of the date of the postmark of the explanation, if the explanation is mailed within fifteen (15) days of the postmark of the Notice of Intent to Lien.

(d) **Owner's Right to Request Meeting.** An Owner may submit a written request to meet with the Board to discuss a payment plan for the debt noticed in Section 12.2.2(b) above. The Association shall provide the Owner with the standards for payment plans, if any exist. The Board shall meet with the Owner in executive session within forty-five (45) days of the postmark of the request, if the request is mailed within fifteen (15) days of the date of the postmark of the Notice of Intent to Lien, unless there is no regularly scheduled Board meeting within that period, in which case the Board may designate a committee of one or more members to meet with the Owner.

(e) **Notice of Delinquent Assessment.** The lien becomes effective on Recordation by the Board or its authorized agent of a Notice of Delinquent Assessment ("**Notice of Delinquent Assessment**") as provided in Section 1367 or 1367.1 of the California Civil Code. The Notice of Delinquent Assessment must identify (i) the amount of the Assessment and other authorized charges and interest, including the cost of preparing and Recording the Notice of Delinquent Assessment, (ii) the amount of collection costs incurred, including reasonable attorneys' fees, (iii) a sufficient description of the Lot that has been assessed, (iv) the Association's name and address, (v) the name of the Owner of the Lot that has been assessed, and (vi) if the lien is to be enforced by nonjudicial foreclosure, the name and address of the

trustee authorized by the Association to enforce the lien by sale. The Notice of Delinquent Assessment must be signed by an authorized Association officer or agent and must be mailed in the manner required by Section 2924b of the California Civil Code to the Owner of record of the Lot no later than ten (10) calendar days after Recordation. The lien relates only to the individual Lot against which the Assessment was levied and not to the Properties as a whole.

(f) **Exceptions.** Assessments described in Section 1367.1(e) of the California Civil Code and Section 2792.26(c) of the California Code of Regulations may not become a lien against an Owner's Lot enforceable by the sale of the Lot under Sections 2924, 2924(b) and 2924(c) of the California Civil Code.

(g) **Release of Lien.** Within twenty-one (21) days of payment of the full amount claimed in the Notice of Delinquent Assessment, or other satisfaction thereof, the Board shall cause to be Recorded a Notice of Satisfaction and Release of Lien ("**Notice of Release**") stating the satisfaction and release of the amount claimed. The Association shall provide the Owner with a copy of the Notice of Release or any other notice that the full amount claimed in the Notice of Delinquent Assessment has been satisfied. The Board may require the Owner to pay a reasonable charge for preparing and Recording the Notice of Release. Any purchaser or encumbrancer who has acted in good faith and extended value may rely on the Notice of Release as conclusive evidence of the full satisfaction of the sums identified as owed in the Notice of Delinquent Assessment.

12.2.3 Enforcement of Liens. The Board shall enforce the collection of amounts due under this Declaration by one (1) or more of the alternative means of relief afforded by this Declaration. The lien on a Lot may be enforced by foreclosure and sale of the Lot after failure of the Owner to pay any Assessment or installment thereof as provided in this Declaration. The sale shall be conducted in accordance with the provisions of the California Civil Code applicable to the exercise of powers of sale in Mortgages, or in any manner permitted by law. The Association (or any Owner if the Association refuses to act) may sue to foreclose the lien if (a) at least thirty (30) days have elapsed since the date on which the Notice of Delinquent Assessment was Recorded and (b) at least ten (10) days have elapsed since a copy of the Notice of Delinquent Assessment was mailed to the Owner affected thereby. The Association may bid on the Lot at foreclosure sale, and acquire and hold, lease, mortgage and convey the same. On completion of the foreclosure sale, the Association or the purchaser at the sale may file suit to secure occupancy of the defaulting Owner's Lot, and the defaulting Owner shall be required to pay the reasonable rental value for the Lot during any period of continued occupancy by the defaulting Owner or any persons claiming under the defaulting Owner. A suit to recover a money judgment for unpaid Assessments may be brought without foreclosing or waiving any lien securing the same, but this provision or any suit to recover a money judgment does not affirm the adequacy of money damages. Any recovery resulting from a suit at law or in equity initiated pursuant to this Section may include reasonable attorneys' fees as fixed by the court.

12.2.4 Priority of Assessment Lien. Mortgages Recorded before a Notice of Delinquent Assessment have lien priority over the Notice of Delinquent Assessment. Sale or transfer of any Lot does not affect the Assessment lien, except that the sale or transfer of any Lot pursuant to judicial or nonjudicial foreclosure of a first Mortgage extinguishes the lien of such Assessments as to payments which became due before such sale or transfer. No sale or transfer

relieves such Lot from liens for any Assessments thereafter becoming due. No Person who obtains title to a Lot pursuant to a judicial or nonjudicial foreclosure of the first Mortgage is liable for the share of the Common Expenses or Assessments chargeable to such Lot which became due before the acquisition of title to the Lot by such Person. Such unpaid share of Common Expenses or Assessments is a Common Expense collectible from all Owners including such Person. The Association may take such action as is necessary to make any Assessment lien subordinate to the interests of the Department Veterans Affairs of the State of California under its Cal-Vet loan contracts as if the Cal-Vet loan contracts were first Mortgages of record.

12.2.5 Alternative Dispute Resolution. An Owner may dispute the Assessments imposed by the Association if such Owner pays in full (a) the amount of the Assessment in dispute, (b) any late charges, (c) any interest, and (d) all reasonable fees and costs associated with preparing and filing a Notice of Delinquent Assessment (including mailing costs and reasonable attorneys' fees not to exceed the maximum amount allowed by law), and states by written notice that such amount is paid under protest, and the written notice is mailed by certified mail not more than thirty (30) days after Recording the Notice of Delinquent Assessment. On receipt of the written notice, the Association shall inform the Owner in writing that the dispute may be resolved through alternative dispute resolution as established in Civil Code Section 1354. The right of any Owner to use alternative dispute resolution under this Section may not be exercised more than two (2) times in any single calendar year, and not more than three (3) times within any five (5) calendar years unless the Owner and the Association mutually agree to use alternative dispute resolution when this limit is exceeded. An Owner may request and be awarded through alternative dispute resolution reasonable interest to be paid by the Association in the total amount paid under items (a) through (d) above, if it is determined that the Assessment levied by the Association was not correctly levied.

12.2.6 Receivers. In addition to the foreclosure and other remedies granted the Association in this Declaration, each Owner, by acceptance of a deed to such Owner's Lot, conveys to the Association all of such Owner's right, title and interest in all rents, issues and profits derived from and appurtenant to such Lot, subject to the right of the Association to collect and apply such rents, issues and profits to any delinquent Assessments owed by such Owner, reserving to the Owner the right, before any default by the Owner in the payment of Assessments, to collect and retain such rents, issues and profits as they may become due and payable. On any such default the Association may, on the expiration of thirty (30) days following delivery to the Owner of the "Notice of Delinquent Assessment" described in this Declaration, either in person, by agent or by receiver to be appointed by a court, and without regard to the adequacy of any security for the indebtedness secured by the lien described in this Declaration, (a) enter in or on and take possession of the Lot or any part thereof, (b) in the Association's name sue for or otherwise collect such rents, issues and profits, including those past due and unpaid, and (c) apply the same, less allowable expenses of operation, to any delinquencies of the Owner, and in such order as the Association may determine. The entering upon and taking possession of the Lot, the collection of rents, issues and profits and the application thereof, shall not cure or waive any default or notice of default under this Declaration or invalidate any act done pursuant to such notice.

12.3. ENFORCEMENT OF BONDED OBLIGATIONS. If (a) the Common Property Improvements in any Phase are not completed before issuance of a Final Subdivision

Public Report for such Phase by the DRE, and (b) the Association is obligee under a bond or other arrangement ("**Bond**") required by the DRE to secure performance of Declarant's commitment to complete such Improvements, then the following provisions of this Section will be applicable:

12.3.1 The Board shall consider and vote on the question of action by the Association to enforce the obligations under the Bond with respect to any such Improvement for which a Notice of Completion has not been filed within sixty (60) days after the completion date specified for that Improvement in the Planned Construction Statement appended to the Bond. If the Association has given an extension in writing for the completion of any Common Property Improvement, then the Board shall be directed to consider and vote on the aforesaid question if a Notice of Completion has not been filed within thirty (30) days after the expiration of the extension.

12.3.2 A special meeting of Owners for the purpose of voting to override a decision by the Board not to initiate action to enforce the obligations under the Bond or on the Board's failure to consider and vote on the question shall be held no fewer than thirty-five (35) nor more than forty-five (45) days after the Board receives a petition for such a meeting signed by Owners representing five percent (5%) of the Association's total voting power. A vote of a majority of the Association's voting power (excluding Declarant) to take action to enforce the obligations under the Bond shall be deemed to be the decision of the Association, and the Board shall thereafter implement such decision by initiating and pursuing appropriate action in the Association's name.

12.4. **DISPUTE WITH DECLARANT PARTIES.** The following dispute resolution procedure is implemented for the Properties with the intent to avoid costly and potentially lengthy traditional court proceedings.

Any disputes (each, a "**Dispute**") between (a) the Association or any Owners on the one hand, and (b) Declarant, any Participating Builder or any director, officer, partner, shareholder, member, employee, representatives, contractor, subcontractor, design professional or agent of Declarant or any Participating Builder (collectively "**Declarant Parties**") on the other hand, which dispute:

(a) Arises under the Declaration, a Notice of Addition, a Supplementary Declaration, or otherwise relates to the Properties or the Annexation Property (including disputes regarding latent or patent construction defects);

(b) Concerns an amount in controversy that is greater than Five Thousand Dollars (\$5,000.00);

(c) Does not involve any action taken by the Association against Declarant or any Participating Builder to collect delinquent assessments, or involving a Common Property completion bond; and

(d) Does not involve claims made under any written limited warranty provided by Declarant ("**Limited Warranty**") which is then applicable to the Lots that

are the basis of the dispute ("*Warranty Claim*") (unless such Limited Warranty provisions have been determined to be unenforceable in which case such Warranty Claim shall be a Dispute).

All Disputes shall be resolved in accordance with the alternative dispute resolution procedures in this Section 12.4.

12.4.1 **Notice.** Any Person with a Dispute shall give written notice of the Dispute by personal or mail service as authorized by Code of Civil Procedure Sections 415.10, 415.20, 415.21, 415.30 or 415.40 to the party to whom the Dispute is directed ("*Respondent*") describing the nature of the Dispute and any proposed remedy (the "*Dispute Notice*").

12.4.2 **Right to Inspect and Correct.** Commencing on the date the Dispute Notice is delivered to the Respondent and continuing until the Dispute is resolved, the Respondent and its representatives have the right to (i) meet with the party alleging the Dispute at a reasonable time and place to discuss the Dispute, (ii) enter the Community to inspect any areas that are subject to the Dispute, and (iii) conduct inspections and testing (including destructive or invasive testing) in a manner deemed appropriate by the Respondent. If Respondent elects to take any corrective action, Respondent and its representatives shall be provided full access to the Community to take and complete the corrective action. Respondent is not obligated to take any corrective action. Respondent, with the consent of Declarant, has the right to select the corrective action Respondent believes is appropriate. The right to inspect and correct granted in this Section is in addition to the rights granted in California Civil Code Section 1375 ("*Calderon Act*"). The procedures established in the Calderon Act may be implemented, before, during or after the procedure in this Section is implemented.

12.4.3 **Mediation.** If the Dispute is not resolved within ninety (90) days after the Respondent receives the Dispute Notice, any party may submit the Dispute to mediation by delivering a request for mediation ("*Mediation Notice*") in the same manner as allowed for delivery of the Dispute Notice. The Dispute shall be mediated pursuant to (i) the JAMS (Judicial Arbitration and Mediation Services) mediation procedures in existence when the Dispute Notice is delivered, as modified by this Section, or (ii) the mediation procedures of any successor to JAMS in existence when the Dispute Notice is delivered, as modified by this Section, or (iii) mediation procedures approved by the parties of any entity offering mediation services that is acceptable to the parties to the Dispute ("*Parties*"). Except as provided in Section 12.4.5, no Person shall commence litigation regarding a Dispute without complying with this Section 12.4.3.

(a) **Selection of Mediator.** The mediator shall be selected within sixty (60) days from delivery of the Mediation Notice. The mediator shall be selected by mutual agreement of the Parties. If the parties cannot agree on a mediator, the mediator shall be selected by the entity providing the mediation service. No Person shall serve as a mediator in any Dispute in which the Person has any financial or personal interest in the result of the mediation, except by the written consent of all Parties. Before accepting any appointment, the prospective mediator shall disclose any circumstances likely to create a presumption of bias or to prevent a prompt commencement of the mediation process.

(b) **Position Letter; Pre-Mediation Conference.** No later than sixty (60) days after selection of the mediator, each party to the Dispute shall submit a letter ("**Position Statement**") containing (i) a description of the party's position concerning the issues that need to be resolved, (ii) a detailed description of the defects allegedly at issue, and (iii) a suggested plan of repair, remediation or correction. The mediator may schedule a pre-mediation conference. All Parties shall attend unless otherwise mutually agreed. The mediation shall be commenced within twenty (20) days after submittal of all Position Statements and shall be concluded within fifteen (15) days after the mediation began unless either (a) the mediator extends the mediation period, or (b) the Parties mutually agree to extend the mediation period. The mediation shall be held in the County or another place mutually acceptable to the parties.

(c) **Conduct of Mediation.** The mediator has discretion to conduct the mediation in the manner in which the mediator believes is most appropriate to achieve the goal of settling the Dispute. The mediator is authorized to conduct joint and separate meetings with the Parties and to make oral and written recommendations for settlement. The mediator may also obtain expert advice concerning technical aspects of the Dispute, provided the Parties agree to and do assume the expenses of obtaining such advice. The mediator shall not have the authority to impose a settlement on the Parties.

(d) **Application of Evidence Code.** The provisions of California Evidence Code Sections 1115 through 1128 shall be applicable to the mediation process. Use and disclosure of statements, evidence and communications offered or made in the course of the mediation shall be governed by these sections, including the sections which preclude use of material in future proceedings and the sections which provide for confidentiality of material.

(e) **Parties Permitted at Mediation.** Persons other than the Parties, their liability insurers, Declarant, attorneys for the Parties, the liability insurers and Declarant and the mediator may attend mediation sessions only with the permission of the Parties and the consent of the mediator. Declarant has the right to attend the mediation session even if Declarant is not one of the Parties.

(f) **Record.** There shall be no stenographic, video or audio record of the mediation process.

(g) **Expenses.** Each Party shall bear its own attorneys' fees and costs incurred in connection with the mediation. All other expenses of the mediation including the fees charged by the mediator and the cost of any proof or expert advice requested by the mediator, shall be borne equally by each of Declarant and the Declarant Parties to whom the Dispute is directed, unless the Parties agree otherwise. This provision does not modify any provision of a contract between Declarant and any Declarant Party requiring indemnification or establishing a different allocation of costs between the Declarant and the Declarant Party.

12.4.4 Judicial Reference. If a Dispute remains unresolved after the mediation required by Section 12.4.3 is completed, or if a Warranty Claim is not resolved under the prelitigation and, dispute resolution procedures in any Limited Warranty because such provisions have been determined to be unenforceable (a "**Warranty Dispute**"), any of the Parties may file a lawsuit, provided that the Association must obtain the vote or written consent of Owners other

than Declarant who represent not less than sixty-seven percent (67%) of the Association's voting power (excluding the voting power of Declarant) prior to filing a lawsuit in a Dispute or Warranty Dispute with Declarant or a Declarant Party. All lawsuits regarding Disputes or Warranty Disputes must be resolved by general judicial reference pursuant to California Code of Civil Procedure Sections 638(a) and 641 through 645.1, as modified by this Section 12.4.4. The Parties shall cooperate in good faith to ensure that all necessary and appropriate parties are included in the judicial reference proceeding. No party shall be required to participate in the judicial reference proceeding if all parties against whom such party would have necessary or permissive cross-claims or counterclaims will not or cannot be joined in the judicial reference proceeding. The general referee shall have the authority to try all issues of fact and law and to report a statement of decision to the court. The referee shall be the only trier of fact and law in the reference proceeding, and shall have no authority to further refer any issues of fact or law to any other Person unless (a) all parties to the judicial reference proceeding consent, or (b) the referee determines that a conflict of interest or similar situation has arisen which would make it inappropriate for the referee to act as the trier of fact or law concerning an issue or matter. In the second alternative, an alternative judicial referee shall be selected in accordance with Section 12.4.4 solely for resolving or rendering a decision concerning the issue or matter involved in the conflict.

(a) **Place.** The proceedings shall be heard in the County.

(b) **Referee.** The referee shall be a retired judge who served on the Superior Court of the State of California in the County with substantial experience in the type of matter in dispute and without any relationship to the Parties or interest in the Community, unless the Parties agree otherwise. The parties to the judicial reference proceeding shall meet to select the referee no later than thirty (30) days after service of the initial complaint on all defendants named in the complaint. Any dispute regarding selecting the referee shall be resolved by the court in which the complaint is filed.

(c) **Commencement and Timing of Proceeding.** The referee shall commence the proceeding at the earliest convenient date and shall conduct the proceeding without undue delay.

(d) **Pre-hearing Conferences.** The referee may require pre-hearing conferences.

(e) **Discovery.** The parties to the judicial reference proceeding shall be entitled only to limited discovery, consisting of the exchange of the following: (i) witness lists, (ii) expert witness designations, (iii) expert witness reports, (iv) exhibits, (v) reports of testing or inspections, and (vi) briefs. Any other discovery authorized in the California Code of Civil Procedure shall be permitted by the referee upon a showing of good cause or based on the consent of all parties to the judicial reference proceeding.

(f) **Motions.** The referee shall have the power to hear and dispose of motions, including motions relating to discovery, provisional remedies, demurrers, motions to dismiss, motions for judgment on the pleadings and summary judgment and/or adjudication motions, in the same manner as a trial court judge. The referee shall also have the power to

adjudicate summarily issues of fact or law including the availability of remedies whether or not the issue adjudicated could dispose of an entire cause of action or defense.

(g) **Record.** A stenographic record of the hearing shall be made which shall remain confidential except as may be necessary for post-hearing motions and any appeals.

(h) **Statement of Decision.** The referee's statement of decision shall contain an explanation of the factual and legal basis for the decision pursuant to California Code of Civil Procedure Section 632. The decision of the referee shall stand as the decision of the court, and upon filing of the statement of decision with the clerk of the court, judgment may be entered thereon in the same manner as if the Dispute had been tried by the court.

(i) **Remedies.** The referee may grant all legal and equitable remedies and award damages in the judicial reference proceeding..

(j) **Post-hearing Motions.** The referee may rule on all post-hearing motions in the same manner as a trial judge.

(k) **Appeals.** The decision of the referee shall be subject to appeal in the same manner as if the Dispute had been tried by the court.

(l) **Expenses.** Each party shall bear its own attorneys' fees and cost incurred in connection with the judicial reference proceeding. All other fees and costs incurred in connection with the judicial reference proceeding, including the cost of the stenographic record, shall be advanced equally by each of Declarant and the Declarant Parties to whom the Dispute or Warranty Dispute is directed. However, the referee shall have the power to reallocate such fees and costs among the Parties in the referee's final ruling. This provision does not modify any provision of a contract between Declarant and any Declarant Party requiring indemnification or establishing a different allocation of costs between Declarant and the Declarant Party.

12.4.5 Statutes of Limitation. Nothing in this Section 12.4 shall be considered to toll, stay, reduce or extend any applicable statute of limitations, provided, however, that Declarant, the Declarant Parties, the Association and any Owner may commence a legal action which in the good faith determination of that Person is necessary to preserve that Person's rights under any applicable statute of limitations so long as no further steps in processing the action are taken except those authorized in this Section 12.4.

12.4.6 Agreement to Dispute Resolution; Waivers of Jury Trial; Amendment. DECLARANT, THE ASSOCIATION AND EACH OWNER AGREE TO USE THE PROCEDURES ESTABLISHED IN THIS SECTION 12.4 TO RESOLVE ALL DISPUTES AND WARRANTY DISPUTES AND WAIVE THEIR RIGHTS TO RESOLVE DISPUTES AND WARRANTY DISPUTES IN ANY OTHER MANNER. DECLARANT, THE ASSOCIATION, AND EACH OWNER ACKNOWLEDGE THAT BY AGREEING TO RESOLVE ALL DISPUTES AND WARRANTY DISPUTES AS PROVIDED IN THIS SECTION 12.4, THEY ARE GIVING UP THEIR RIGHT TO HAVE DISPUTES AND WARRANTY DISPUTES TRIED BEFORE A JURY, PURSUANT TO THE FEDERAL

ARBITRATION ACT. THIS SECTION 12.4 MAY NOT BE AMENDED WITHOUT DECLARANT'S PRIOR WRITTEN CONSENT.

12.4.7 Civil Code Section 1354. Section 12.4 governs only the resolution of Disputes and Warranty Disputes with Declarant Parties. Unless the subject matter of a Dispute or Warranty Dispute expressly involves enforcement of the Restrictions, such Dispute or Warranty Dispute shall not be governed by the provisions of California Civil Code Section 1354, or any successor statute. Each party in a Dispute or Warranty Dispute with Declarant Parties shall bear its own attorneys' fees and costs, and the prevailing party shall not be entitled to an award of attorneys' fees and costs, except to the extent provided under California Civil Code Section 1354.

12.4.8 Amendment of Defect Claims Provisions. Except for any amendment made by Declarant as authorized in Section 15.7, neither this Section nor Sections 1.1.33, 3.16, 4.2.7, 4.5, 4.6.2, 4.6.3 or 12.1.7, may be amended without the vote or approval by written ballot of at least (a) ninety percent (90%) of the voting power of the Members of the Association other than Declarant, and (b) at least ninety percent (90%) of the Mortgagees.

ARTICLE XIII DURATION AND AMENDMENT

13.1. DURATION. This Declaration shall continue in full force unless a declaration of termination satisfying the requirements of an amendment to this Declaration established in Section 13.2 is Recorded.

13.2. TERMINATION AND AMENDMENT.

13.2.1 Amendment Approval. Notice of the subject matter of a proposed amendment to this Declaration in reasonably detailed form must be included in the notice of any Association meeting or election at which a proposed amendment is to be considered. To be effective, a proposed amendment (other than an Amendment described in Section 15.7) must be adopted by the vote, in person or by proxy, or written consent of Owners representing not less than (i) sixty-seven percent (67%) of the voting power of each Class of the Association and (ii) sixty-seven percent (67%) of the Association's voting power represented by Owners other than Declarant, provided that the specified percentage of the Association's voting power necessary to amend a specific provision of this Declaration may not be less than the percentage of affirmative votes prescribed for action to be taken under the provision that is the subject of the proposed amendment. So long as Declarant has the right to appoint a majority of the members of the Board, and VA or FHA is making or insuring a Mortgage in the Properties, the prior approval of VA or FHA (whichever is making or insuring a Mortgage) is required for any amendment to the Declaration for the purpose of terminating the Declaration, dissolving the Association (except pursuant to merger or consolidation) or conveying all of the Common Area.

13.2.2 Mortgagee Consent. In addition to the consents required by Section 13.2.1, the Mortgagees of fifty-one percent (51%) of the first Mortgages on all the Lots in the Properties who have requested the Association to notify them of proposed action requiring the

consent of a specified percentage of first Mortgagees must approve any amendment to this Declaration which is of a material nature, as follows:

(a) Any amendment which affects or purports to affect the validity or priority of Mortgages or the rights or protection granted to Mortgagees, insurers or guarantors of first Mortgages.

(b) Any amendment which would require a Mortgagee after it has acquired a Lot through foreclosure to pay more than its proportionate share of any unpaid Assessment or Assessments accruing before such foreclosure.

(c) Any amendment which would or could result in a Mortgage being canceled by forfeiture, or in a Lot not being separately assessed for tax purposes.

(d) Any amendment relating to (i) the insurance provisions in Article VIII, (ii) the application of insurance proceeds in Article IX, or (iii) the disposition of any money received in any taking under condemnation proceedings.

(e) Any amendment which would subject any Owner to a right of first refusal or other such restriction, if such Lot is proposed to be transferred.

13.2.3 Termination Approval. Termination of this Declaration requires approval of the Owners as provided in Section 13.2.1.

13.2.4 Notice to Mortgagees. Each Mortgagee of a first Mortgage on a Lot in the Properties which receives proper written notice of a proposed amendment or termination of this Declaration with a return receipt requested is deemed to have approved the amendment or termination if the Mortgagee fails to submit a response to the notice within thirty (30) days after the Mortgagee receives the notice.

13.2.5 Certificate. A copy of each amendment must be certified by at least two (2) Association officers. The amendment becomes effective when a Certificate of Amendment is Recorded. The certificate, signed and sworn to by two (2) Association officers that the requisite number of Owners and Mortgagees have approved the amendment, when Recorded, is conclusive evidence of that fact. The Association shall keep in its files for at least four (4) years the record of all such approvals. The certificate reflecting any termination or amendment which requires the written consent of any of the Mortgagees of first Mortgages must include a certification that the requisite approval of such first Mortgagees was obtained.

13.2.6 Unilateral Amendment by Declarant. Notwithstanding any other provisions of this Section, at any time prior to the first Close of Escrow in Phase 1, Declarant may unilaterally amend or terminate this Declaration by Recording a written instrument which effects the amendment or termination and is signed and acknowledged by Declarant. Notwithstanding any other provisions of this Section, Declarant (for so long as Declarant owns any portion of the Properties or the Annexable Territory) may unilaterally amend this Declaration or a Notice of Addition as provided in Section 15.7.

13.2.7 **Amendment by the Board.** Notwithstanding any other provisions of this Section, the Board may amend this Declaration by Recording a written instrument signed by two officers of the Association certifying that the Board approved the amendment in order to (i) conform this Declaration to applicable law, (ii) correct typographical errors, and (iii) change any exhibit to this Declaration or portion of an exhibit to conform to as-built conditions. So long as Declarant owns any portion of the Properties or the Annexable Territory, the Board must obtain Declarant's consent to any amendment the Board approves pursuant to this Section.

ARTICLE XIV GENERAL PROVISIONS

14.1. **MERGERS OR CONSOLIDATIONS.** In a merger or consolidation of the Association with another association, its properties, rights and obligations may, by operation of law, be transferred to another surviving or consolidated association or, alternatively, the properties, rights and obligations of another association may, by operation of law, be added to the properties, rights and obligations of the Association as a surviving corporation pursuant to a merger. The surviving or consolidated association may administer and enforce the covenants, conditions and restrictions established by this Declaration governing the Properties, together with the covenants and restrictions established on any other property, as one (1) plan.

14.2. **NO PUBLIC RIGHT OR DEDICATION.** Nothing in this Declaration is a gift or dedication of all or any part of the Properties to the public, or for any public use.

14.3. **NOTICES.** Except as otherwise provided in this Declaration, notice to be given to an Owner must be in writing and may be delivered personally to the Owner. Personal delivery of such notice to one (1) or more co-Owners, or any general partner of a partnership owning a Lot, constitutes delivery to all Owners. Personal delivery of such notice to any officer or agent for the service of process on a corporation or limited liability company constitutes delivery to the corporation or limited liability company. Such notice may also be delivered by regular United States mail, postage prepaid, addressed to the Owner at the most recent address furnished by such Owner to the Association or, if no such address has been furnished, to the street address of such Owner's Lot. Such notice is deemed delivered three (3) business days after the time of such mailing, except for notice of a meeting of Owners or of the Board, in which case the notice provisions of the Bylaws control. Any notice to be given to the Association may be delivered personally to any member of the Board, or sent by United States mail, postage prepaid, addressed to the Association at such address as may be fixed and circulated to all Owners.

14.4. **CONSTRUCTIVE NOTICE AND ACCEPTANCE.** Every Person who owns, occupies or acquires any right, title, estate or interest in or to any Lot or other portion of the Properties consents and agrees to every limit, restriction, easement, reservation, condition and covenant contained in this Declaration, whether or not any reference to these restrictions is in the instrument by which such person acquired an interest in the Properties.

**ARTICLE XV
DECLARANT'S RIGHTS AND RESERVATIONS**

If there is a conflict between any other portion of the Restrictions and this Article, this Article shall control.

15.1. CONSTRUCTION RIGHTS. Declarant has the right to (a) subdivide or resubdivide the Properties, (b) complete or modify Improvements to and on the Common Area or any portion of the Properties owned or leased solely or partially by Declarant, (c) alter Improvements and Declarant's construction plans and designs, (d) modify Declarant's development plan for the Properties and the Annexable Territory, including designating and redesignating Phases, reshaping the Lots and Common Area, and constructing Residences of larger or smaller sizes, values, and of different types, and (e) construct such additional Improvements as Declarant considers advisable in the course of development of the Properties so long as any Lot in the Properties or the Annexable Territory remains unsold.

15.2. SALES AND MARKETING RIGHTS. Declarant's rights under this Declaration include the right to install and maintain such structures, displays, signs, billboards, flags, sales offices, model homes and parking areas as may be reasonably necessary to conduct Declarant's business of completing, marketing and selling the Lots, the Annexable Territory and other residential real property within the City or within proximity to the Properties. Declarant may use any Lots in the Properties owned or leased by Declarant as model homes, real estate sales or leasing offices and appurtenant parking areas.

15.3. CREATING ADDITIONAL EASEMENTS. At any time before acquisition of title to a Lot in the Properties by a purchaser from Declarant, Declarant has the right to establish on that Lot additional licenses, easements, reservations and rights-of-way to itself, to utility companies, or to others as Declarant determines are reasonably necessary to the Properties' proper development and disposal.

15.4. ARCHITECTURAL REVIEW EXEMPTION. Declarant and any Person to whom Declarant may assign all or a portion of its exemption under this Declaration need not seek or obtain Design Review Committee approval of any Improvements constructed anywhere on the Properties by Declarant or such Person. Declarant may exclude portions of the Properties from jurisdiction of the Design Review Committee in the applicable Notice of Addition or Supplemental Declaration. Declarant, may, at its option, establish an additional design review committee for any area exempted from the jurisdiction of the Design Review Committee.

15.5. USE RESTRICTION EXEMPTION. Declarant and any Person to whom Declarant may assign all or a portion of its exemption under this Declaration is exempt from the restrictions established in Article II.

15.6. ASSIGNMENT OF RIGHTS. Declarant may assign its rights under the Restrictions to any successor in interest to any portion of Declarant's interest in the Properties by a written assignment.

15.7. AMENDMENTS. No amendment may be made to this Article without the prior written approval of Declarant. At any time before the first Close of Escrow in Phase 1,

Declarant may unilaterally amend or terminate this Declaration by Recording a written instrument which effects the amendment or termination and is signed and acknowledged by Declarant. For so long as Declarant owns any portion of the Properties or the Annexable Territory, Declarant may unilaterally amend this Declaration or a Notice of Addition by Recording a written instrument signed by Declarant to (i) conform this Declaration or a Notice of Addition to applicable law, (ii) conform this Declaration or a Notice of Addition to the requirements of VA, FHA, DRE, FNMA, GNMA, FHLMC, the City or the County, (iii) correct typographical errors, (iv) change any exhibit or portion of an exhibit depicting property that is not part of a Phase for which assessments have commenced, and (v) change any exhibit or portion of an exhibit to conform to as-built conditions.

15.8. EXERCISE OF RIGHTS. Each Owner grants an irrevocable, special power of attorney to Declarant to execute and Record all documents and maps necessary to allow Declarant to exercise its rights under this Article.

15.9. USE OF PROPERTIES. Declarant and its prospective purchasers of Lots are entitled to the nonexclusive use of the Common Area and the recreational facilities thereon, without further cost for access, ingress, egress, use or enjoyment, to (a) show the Properties to prospective purchasers, (b) dispose of the Properties as provided in this Declaration, and (c) develop and sell the Annexable Territory. Declarant, and prospective purchasers, are also entitled to the nonexclusive use of any portions of the Properties which are private streets, drives and walkways for construction access and accommodating vehicular and pedestrian traffic to and from the Properties and the Annexable Territory. The use of the Common Area by Declarant may not unreasonably interfere with the use thereof by the other Owners.

15.10. PARTICIPATION IN ASSOCIATION. The Association shall provide Declarant with written notice of the transfer of any Lot and all notices and other documents to which a Mortgagee is entitled pursuant to this Declaration, provided that Declarant shall be provided such notices and other documents without making written request therefor. Commencing on the date on which Declarant no longer has an elected representative on the Board, and continuing until the later to occur of the date on which Declarant (a) no longer owns a Lot in the Properties or (b) cannot unilaterally annex property to the Properties, the Association shall provide Declarant with written notice of all meetings of the Board as if Declarant were an Owner and Declarant shall be entitled to have a representative present at all such Board meetings ("*Declarant's Representative*"). The Declarant's Representative shall be present in an advisory capacity only and shall not be a Board member or have any right to vote on matters coming before the Board.

15.11. DECLARANT APPROVAL OF ACTIONS. Until Declarant no longer owns any Lots in the Properties or the Annexable Territory, the following actions, before being undertaken by the Association, must first be approved in writing by Declarant:

(a) Any amendment or action requiring the approval of first Mortgagees;

(b) The annexation to the Properties of real property other than the Annexable Territory pursuant to Section 16.2;

(c) The levy of a Capital Improvement Assessment for the construction of new facilities not constructed on the Common Property by Declarant;

(d) Any significant reduction of Association maintenance or other services; or

(e) Any modification or termination of any provision of the Restrictions benefiting Declarant or which would impair or diminish Declarant's rights to complete the Properties or the Annexable Territory or sell or lease dwellings therein.

15.12. **MARKETING NAME.** The Properties shall be marketed under the general name "Vallecitos Ridge." Declarant may change the marketing name of the Properties or designate a different marketing name for any Phase at any time in Declarant's sole discretion. Declarant shall notify the DRE of any change in or addition to the marketing name or names of the Properties or any Phase.

ARTICLE XVI ANNEXATION OF ADDITIONAL PROPERTY

Additional real property may be annexed to the Properties and become subject to this Declaration by any of the following methods:

16.1. **ADDITIONS BY DECLARANT.** Declarant may add the Annexable Territory to the Properties and bring such added territory under the general plan of this Declaration without the approval of the Association, the Board, or Owners, so long as Declarant owns any portion of the Annexable Territory.

16.2. **OTHER ADDITIONS.** Additional real property may be annexed to the Properties and brought under the general plan of this Declaration upon the approval by vote or written consent of Members entitled to exercise no less than two-thirds (2/3) of the Association's voting power.

16.3. **RIGHTS AND OBLIGATIONS-ADDED TERRITORY.** Subject to the provisions of Section 16.4, when a Notice of Addition containing the provisions required by this Section is Recorded, all provisions in this Declaration will apply to the real property described in such Notice of Addition (the "Added Territory") in the same manner as if the real property were originally covered by this Declaration. Thereafter, the rights, powers and responsibilities of the Owners, lessees and occupants of Lots in the Added Territory, as well as in the property originally subject to this Declaration, will be the same as if the Added Territory were originally covered by this Declaration. After the first day of the month following the first Close of Escrow in the Added Territory, the Owners of Lots located in the Added Territory shall share in the payment of Assessments to the Association. Voting rights attributable to the Lots in the Added Territory do not vest until Annual Assessments have commenced on such Lots.

16.4. **NOTICE OF ADDITION.** The additions authorized under Sections 16.1 and 16.2 must be made by Recording a Notice of Addition which will extend the general plan of this Declaration to such Added Territory. The Notice of Addition for any addition under Section 16.1 must be signed by Declarant. The Notice of Addition for any addition under Section 16.2

must be signed by at least two (2) officers of the Association to certify that the Owner approval required under Section 16.2 was obtained. On Recordation of the Notice of Addition, the Added Territory will be annexed to and constitute a part of the Properties and will become subject to this Declaration; the Owners of Lots in the Added Territory will automatically acquire Membership. No Notice of Addition or Supplemental Declaration may revoke the covenants, conditions, restrictions, reservation of easements, or equitable servitudes in this Declaration as the same pertain to the real property originally covered by this Declaration. In a Notice of Addition under Section 16.1, Declarant shall have the right, if it determines in the exercise of its sole discretion that the Added Territory will not benefit from Improvements or services which are Common Expenses of the Association, to designate that such Common Expense items will not be shared by the Added Territory, provided that such designation is also identified in the current Association Budget approved by the DRE for the Added Territory annexed, and provided that such designation does not result in an increase in Common Assessments in excess of the limit set in this Declaration.

16.5. DEANNEXATION AND AMENDMENT. In addition to the provisions of Section 15.7, Declarant may amend a Notice of Addition or delete all or a portion of a Phase from coverage of this Declaration and the Association's jurisdiction so long as Declarant is the owner of all of such Phase and (a) an amending instrument or a Notice of Deletion of Territory, as applicable, is Recorded in the same manner as the applicable Notice of Addition was Recorded, (b) Declarant has not exercised any Association vote with respect to any portion of such Phase, (c) Assessments have not yet commenced with respect to any portion of such Phase, (d) Close of Escrow has not occurred for the sale of any Lot in such Phase, and (e) the Association has not made any expenditures or incurred any obligations with respect to any portion of such Phase.

ARTICLE XVII CITY RIGHTS

17.1. APPROVAL OF AMENDMENT OR TERMINATION. Notwithstanding any other provisions of this Declaration, Sections 2.19, 2.22, 4.21, 4.2.6 and 4.6.2(c) of this Declaration pertaining to the obligations of the Association to maintain the Common Property, and this Article XVII, shall not be amended by the Board, the Owners or Declarant without the prior written approval of the Planning Director of the City. Further, termination of this Declaration pursuant to Section 13.2 shall also require the prior written approval of the Planning Director of the City. No such approval shall be unreasonably withheld by the City.

17.2. CITY ACCESS EASEMENT. The City is granted an easement and right, but not the duty, to enter upon the Common Property for the purpose of (a) inspecting the Common Property for compliance with the Association's obligations to maintain the Common Property as provided in this Declaration, and (b) performing maintenance and repair pursuant to the enforcement rights described below. This City easement and right of entry for inspection purposes may be exercised without prior notice to the Board but only during regular business hours (except in case of emergency as declared by the City). The Board shall provide the City with the current means of access to the Properties through the controlled-access entry gates whenever such means of access may be changed by the Board.

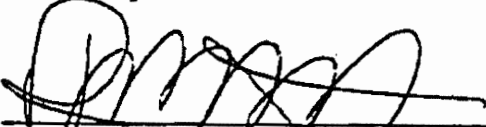
17.3. **CITY ENFORCEMENT AND LIEN RIGHTS.** In addition to any other remedies at law or in equity the City may have to enforce this Declaration, in the event the Association breaches its obligations to maintain the Common Property pursuant to this Declaration, the City shall have the same right as that of the Association to enter the Common Property to repair or maintain the Common Property. The City may exercise this right to maintain or repair only if, after giving the Board written notice of the specific conditions which are in breach of its obligations to maintain, the Board fails to (a) commence correction of such specific conditions in no more than thirty (30) days after delivery of the notice, or (b) thereafter fails to diligently pursue the corrective maintenance or repair to completion. The Association shall pay all expenses incurred by the City to maintain or repair the Common Property, no more than thirty (30) days after the Board's receipt of an itemized written demand from the City. If the Board fails to pay the City expenses within said thirty (30) days, the City shall have the right to impose a lien for the proportionate share of such expenses against each Lot in the Properties, or against the Common Area.

[SIGNATURES ON FOLLOWING PAGE]

[SIGNATURE PAGE TO DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS AND RESERVATION OF EASEMENTS]

This Declaration is dated for identification purposes JUNE 22, 2004

K. HOVNANIAN FORECAST HOMES, INC.
a California corporation

By: 

Print Name: Roy Moffett

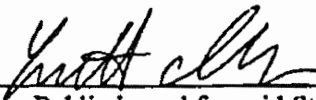
Title: VP Sales & Marketing

"Declarant"

STATE OF CALIFORNIA)
) ss.
COUNTY OF SAN BERNARDINO)

On June 22, 2004, before me, Yvette Iler, Notary Public, personally appeared Roy Moffett personally known to me (~~or proved to me on the basis of satisfactory evidence~~) to be the person whose name is subscribed to the within instrument and acknowledged to me that (he) (~~she~~) executed the same in (his) (~~her~~) authorized capacity, and that by (his) (~~her~~) signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.


Notary Public in and for said State

(SEAL)

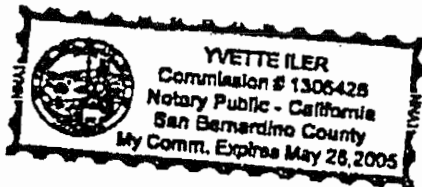


EXHIBIT A

LEGAL DESCRIPTION OF ANNEXABLE TERRITORY

Lots 1 to 77, Lots 104 to 108, and Lots A to E, all inclusive, of San Marcos Tract No. 432, Filed in Book of Parcel Maps on Page 14726, Official Records of San Diego County, California.

EXHIBIT B

ARTICLES OF INCORPORATION OF THE ASSOCIATION

569

DOC # 2004-0641946



RECORDING REQUESTED BY:

JUL 12, 2004 8:00 AM

ORANGE COAST TITLE COMPANY

OFFICIAL RECORDS
SAN DIEGO COUNTY RECORDER'S OFFICE
GREGORY J. SMITH, COUNTY RECORDER
FEES: 19.00
PAGES: 5

SP

WHEN RECORDED, MAIL TO:



JACKSON, DeMARCO &
PECKENPAUGH (WJT)
2030 Main Street, Suite 1200
Irvine, California 92614

2004-0641946

070904-66

(Space Above for Recorder's Use)

**NOTICE OF ADDITION OF TERRITORY
AND
SUPPLEMENTAL DECLARATION
OF
COVENANTS, CONDITIONS AND RESTRICTIONS
FOR
VALLECITOS RIDGE**

(Phase 2, Lots 9 to 29, 31 to 42, 108 and Lots A and B of San Marcos Tract No. 432)

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Ph 2 - 06/22/04

**NOTICE OF ADDITION OF TERRITORY
AND
SUPPLEMENTAL DECLARATION
OF
COVENANTS, CONDITIONS AND RESTRICTIONS
FOR
VALLECITOS RIDGE**

(Phase 2, Lots 9 to 29, 31 to 42, 108 and Lots A and B of San Marcos Tract No. 432)

This NOTICE OF ADDITION OF TERRITORY AND SUPPLEMENTAL DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS FOR VALLECITOS RIDGE ("*Notice of Addition*") is made by K. HOVNANIAN FORECAST HOMES, INC., a California corporation ("*Declarant*").

P R E A M B L E:

A. Declarant is "Declarant" under that Declaration of Covenants, Conditions and Restrictions and Reservation of Easements for Vallecitos Ridge, which was Recorded on June 25, 2004, as Instrument No. 2004-599077 ("*Declaration*"), in the Official Records of San Diego County, California ("*Official Records*"). The Declaration is binding upon all Owners of residential Lots in the planned development known as Vallecitos Ridge (the "*Properties*").

B. Declarant is the owner of certain real property ("*Added Territory*") in the City of San Marcos, San Diego County, California, described as follows:

Lots 9 to 29, inclusive, Lots 31 to 42, inclusive, Lot 108 and Lots A and B, of San Marcos Tract No. 432, Map No. 14726, recorded in Book of Parcel Maps, on Page 14726, records of San Diego County.

C. The Added Territory is part of the "Annexable Territory" as defined in the Declaration.

D. Pursuant to Article XVI of the Declaration, Declarant now desires to add the Added Territory to the property already subject to the Declaration as a Phase of Development of the Properties.

THEREFORE, DECLARANT DECLARES AS FOLLOWS:

1. **Annexation of Added Territory.** The Added Territory is annexed to and made a part of the real property already subject to the Declaration, as a Phase of Development of the Properties. This Notice of Addition constitutes a Notice of Addition, as described in Section 16.4 of the Declaration.

2. **Membership in Association.** Each Owner of one or more residential Lots in the Added Territory shall automatically become a member of Vallecitos Ridge Association ("*Association*"), a California nonprofit mutual benefit corporation, as provided in Section 4.4.1 of the Declaration.

3. **Assessment Obligations.** The rights and obligations of all Owners of residential Lots located in the Added Territory with respect to payment of assessments are set forth in Article VII of the Declaration. The Annual Assessments to be paid to the Association shall commence as to all residential Lots in the Added Territory on the first day of the first calendar month following the first Close of Escrow for the sale of a residential Lot in the Added Territory, as provided in Section 7.6 of the Declaration.

4. **Voting Rights.** As provided in Section 16.3 of the Declaration, the entitlement to vote shall commence as to all residential Lots within the Added Territory on the first day of the first calendar month following the first Close of Escrow for the sale of a residential Lot in the Added Territory.

5. **Land Classifications.**

5.1. **Residential Lots.** Lots 9 to 29, inclusive, and Lots 31 to 42, inclusive, of San Marcos Tract No. 432 are designated to be residential Lots, as defined in the Declaration.

5.2. **Common Area.** Lot 108 (private street Dundee Court) and Lots A and B (open space) of San Marcos Tract No. 432, shall constitute Common Area upon conveyance in fee title to the Association prior to the first Close of Escrow for the sale of a Lot in the Added Territory.

5.3. **Association Maintenance Areas.** Association Maintenance Areas designated in the Added Territory include:

(a) The verdura wall along the southern perimeter of the Properties which is constructed on or adjacent to the common boundary that separates Lots B and C from residential Lots 9 to 27, inclusive, all of San Marcos Tract No. 432.

(b) Slopes, (including the landscaping and irrigation systems) and drainage facilities located on Lots 9 to 27, inclusive, within the Association Maintenance Area as approximately shown on Exhibit D attached to the Declaration, and on the Map of San Marcos Tract No. 432.

Declarant reserves, for the benefit of Declarant, its successors-in-interest, assigns and others, together with the right to transfer the same to the Association, nonexclusive easements for maintenance over the Association Maintenance Areas described in this Notice of Addition and shown on Exhibit D attached to the Declaration. The nonexclusive easement for maintenance of the Association Maintenance Areas in the Added Territory shall be conveyed by Declarant to the Association in a future Phase of Development, in accordance with a phasing plan submitted by Declarant to the Department of Real Estate ("*DRE*").

6. **Maintenance Obligations.** The maintenance obligations of the Association, the Owners, and Declarant are described in the Declaration. The Association's obligation to maintain

the Common Area in the Added Territory shall commence when Annual Assessments commence for the Added Territory. The Association's obligation to maintain Association Maintenance Areas in the Added Territory shall commence when Annual Assessments commence in the Phase in which the maintenance easement over the Added Territory Association Maintenance Areas is conveyed to the Association. Until the Association is responsible for maintaining the Association Maintenance Areas in the Added Territory, the Declarant shall maintain the Association Maintenance Areas in the Added Territory.

7. **Interim Access for Association and Owners.** Declarant reserves for the benefit of the Association and the Owners, a nonexclusive interim access easement as defined in Section 6.1.6 of the Declaration ("*Interim Access Easement*") over a portion of Lot 105 (Kirkwall Drive) and all of Lot 107 (Glasgow Court) of San Marcos Tract No. 432. The location of the Interim Access Easement over said Lot 105 is the portion of Kirkwall Drive between Lot 8 and Lot 30 of San Marcos Tract No. 432.

8. **Marketing Name.** The Properties shall be marketed under the name "Vallecitos Ridge," unless and until changed by Declarant in its sole and absolute discretion from time to time. Declarant shall notify the DRE of any change in the name of the Properties under which it is marketed by Declarant.

9. **Conformity with Development Plan.** This Notice of Addition is in conformity with the development plan currently on file with the DRE.

10. **Miscellaneous.** The provisions of this Notice of Addition shall run with all of the Added Territory, the Properties, and the Common Property, shall be binding upon all persons having or acquiring any interest in the Added Territory, the Properties, the Common Property, or any part thereof, shall inure to the benefit of and burden every portion of the Added Territory, the Properties, the Common Property, and any interest therein, and shall inure to the benefit of, be binding upon, and may be enforced by any Owner, Declarant, each successor in interest of Declarant, the Association, and their successive owners and assigns. Except as otherwise provided herein, the capitalized terms in this Notice of Addition shall have the same meanings as are given such terms by the Declaration. Except as otherwise expressly provided herein, all of the provisions of the Declaration are hereby incorporated by reference as if fully set forth herein.

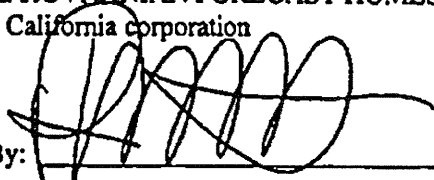
11. **Exhibits.** All exhibits to this Notice of Addition are incorporated in this Notice of Addition by this reference.

[Signatures on Following Page]

**[SIGNATURE PAGE TO NOTICE OF ADDITION OF TERRITORY
AND SUPPLEMENTAL DECLARATION OF COVENANTS,
CONDITIONS AND RESTRICTIONS FOR VALLECITOS RIDGE]**

This Notice of Addition has been executed on JULY 8 2004 to be effective as of the date of its Recordation.

K. HOVNANIAN FORECAST HOMES, INC.,
a California corporation

By: 

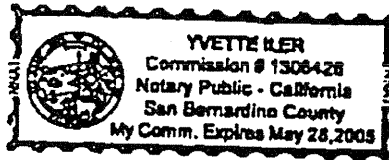
Name: Roy Moffett
Title: VP Sales & Marketing
Declarant

STATE OF CALIFORNIA)
) ss.
COUNTY OF SAN BERNARDINO)

On July 8, 2004, before me, the undersigned, a Notary Public in and for said State, personally appeared Roy Moffett, personally known to me ~~(or proved to me on the basis of satisfactory evidence)~~ to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.


Notary Public in and for said State



CERTIFICATE OF RECORDED GOVERNING DOCUMENTS

I, Christine LaGraca, an employee of Equity Management, the duly appointed agent for Vallecitos Ridge Association hereby certify that on March 1, 2006, I received the recorded Covenants, Conditions & Restrictions, or Amendment thereof, for the above-mentioned Association. I hereby certify that I have printed on each page of said document the date it was recorded by the County Recorder's Office and the document number.

[Signature]
SIGNATURE

[Signature]
WITNESS

March 1, 2006
DATE

State of California

County of Riverside

On March 1, 2006 before me, Lisa I. Locke, Notary Public, personally appeared Christine La Graca personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that ~~he~~/she executed the same in ~~his~~/her authorized capacity, and that by ~~his~~/her signature on the instrument the person, or the entity upon behalf of which the person acted, executed this instrument.

WITNESS my hand and official seal.

[Signature]
Signature of Notary Public



ORIG: CC&Rs / ATTACHED

564

DOC # 2004-0641945

RECORDING REQUESTED BY:

fb ORANGE COAST TITLE COMPANY

5P WHEN RECORDED, MAIL TO:

JACKSON, DeMARCO &
PECKENPAUGH (WJT)
2030 Main Street, Suite 1200
Irvine, California 92614



JUL 12, 2004 8:00 AM

OFFICIAL RECORDS
SAN DIEGO COUNTY RECORDER'S OFFICE
GREGORY J. SMITH, COUNTY RECORDER
FEES: 19.00
PAGES: 5



2004-0641945

(Space Above for Recorder's Use)

070904-66

**NOTICE OF ADDITION OF TERRITORY
AND
SUPPLEMENTAL DECLARATION
OF
COVENANTS, CONDITIONS AND RESTRICTIONS
FOR
VALLECITOS RIDGE**

(Phase 3, Lots 1 to 8, 30, 43 to 77, 104 to 107 and Lots C to E of San Marcos Tract No. 432)

**NOTICE OF ADDITION OF TERRITORY
AND
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(Phase 3, Lots 1 to 8, 30, 43 to 77, 104 to 107 and Lots C to E of San Marcos Tract No. 432)

This NOTICE OF ADDITION OF TERRITORY AND SUPPLEMENTAL DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS FOR VALLECITOS RIDGE ("*Notice of Addition*") is made by K. HOVNIANIAN FORECAST HOMES, INC., a California corporation ("*Declarant*").

P R E A M B L E:

A. Declarant is "Declarant" under that Declaration of Covenants, Conditions and Restrictions and Reservation of Easements for Vallecitos Ridge, which was Recorded on JUNE 25, 2004, as Instrument No. 2004-599077 ("*Declaration*"), in the Official Records of San Diego County, California ("*Official Records*"). The Declaration is binding upon all Owners of residential Lots in the planned development known as Vallecitos Ridge (the "*Properties*").

B. Declarant is the owner of certain real property ("*Added Territory*") in the City of San Marcos, San Diego County, California, described as follows:

Lots 1 to 8, inclusive, 30, 43 to 77, inclusive, 104 to 107, inclusive, and Lots C, D and E of San Marcos Tract No. 432, Map No. 14726, recorded in Book of Parcel Maps, on Page 14726, records of San Diego County Recorder.

C. The Added Territory is part of the "Annexable Territory" as defined in the Declaration.

D. Pursuant to Article XVI of the Declaration, Declarant now desires to add the Added Territory to the property already subject to the Declaration as a Phase of Development of the Properties.

THEREFORE, DECLARANT DECLARES AS FOLLOWS:

1. **Annexation of Added Territory.** The Added Territory is annexed to and made a part of the real property already subject to the Declaration, as a Phase of Development of the Properties. This Notice of Addition constitutes a Notice of Addition, as described in Section 16.4 of the Declaration.

2. **Membership in Association.** Each Owner of one or more residential Lots in the Added Territory shall automatically become a member of Vallecitos Ridge Association ("*Association*"), a California nonprofit mutual benefit corporation, as provided in Section 4.4.1 of the Declaration.

3. **Assessment Obligations.** The rights and obligations of all Owners of residential Lots located in the Added Territory with respect to payment of assessments are set forth in Article VII of the Declaration. The Annual Assessments to be paid to the Association shall commence as to all residential Lots in the Added Territory on the first day of the first calendar month following the first Close of Escrow for the sale of a residential Lot in the Added Territory, as provided in Section 7.6 of the Declaration.

4. **Voting Rights.** As provided in Section 16.3 of the Declaration, the entitlement to vote shall commence as to all residential Lots within the Added Territory on the first day of the first calendar month following the first Close of Escrow for the sale of a residential Lot in the Added Territory.

5. **Land Classifications.**

5.1. **Residential Lots.** Lots 1 to 8, 30, 43 to 77, all inclusive, and Lot 104 of San Marcos Tract No. 432 are designated to be residential Lots, as defined in the Declaration.

5.2. **Common Area.** Lots C, D and E (open space) and Lots 105 to 107 (private streets Kirkwall Drive, Helmsdale Road and Glasgow Court) of San Marcos Tract No. 432, shall constitute Common Area upon conveyance in fee title to the Association prior to the first Close of Escrow for the sale of a Lot in the Added Territory.

5.3. **Association Maintenance Areas.** Association Maintenance Areas in the Added Territory include:

(a) The slopes, (including the landscaping and irrigation systems) and drainage facilities (if any) located on Lots 1 to 8, inclusive, Lots 43 to 58, inclusive, Lots 64 to 77, inclusive, Lot 104 and Lot F of San Marcos Tract No. 432. The slopes and drainage facilities lie within the private slope and landscape maintenance easement areas and private drainage easement areas as shown on Map No. 14726;

(b) The fuel modification/brush management areas within Lot F, adjacent to Lots 60 and 61, of San Marcos Tract No. 432, in the approximate location shown on Exhibit D to the Declaration and on Map No. 14726;

(c) The drainage facilities located on Lots 62 and 63 within the private drainage easement area as shown on Map No. 14726; and

(d) The verdura wall along the southern perimeter of the Properties constructed on or adjacent to residential Lots 1 to 8, inclusive, of San Marcos Tract No. 432.

Declarant reserves, for the benefit of Declarant, its successors-in-interest, assigns and others, together with the right to transfer the same to the Association, nonexclusive easements over

each Lot in the Added Territory (as applicable) for maintenance of Association Maintenance Areas, all as described in this Notice of Addition and as shown on Exhibit D attached to the Declaration. The nonexclusive easement for maintenance of the Association Maintenance Areas in the Added Territory shall be conveyed by Declarant to the Association prior to the first Close of Escrow for the sale of a Lot in the Added Territory.

6. **Maintenance Obligations.** The maintenance obligations of the Association, the Owners, and Declarant are described in the Declaration. The Association's obligation to maintain the Common Area and the Association Maintenance Areas in the Added Territory shall commence when Annual Assessments commence for the Added Territory. Until the Association is responsible for maintaining the Association Maintenance Areas in the Added Territory, the Declarant shall maintain the Association Maintenance Areas in the Added Territory.

7. **Marketing Name.** The Properties shall be marketed under the name "Vallecitos Ridge," unless and until changed by Declarant in its sole and absolute discretion from time to time. Declarant shall notify the DRE of any change in the name of the Properties under which it is marketed by Declarant.

8. **Conformity with Development Plan.** This Notice of Addition is in conformity with the development plan currently on file with the DRE.

9. **Miscellaneous.** The provisions of this Notice of Addition shall run with all of the Added Territory, the Properties, and the Common Property, shall be binding upon all persons having or acquiring any interest in the Added Territory, the Properties, the Common Property, or any part thereof, shall inure to the benefit of and burden every portion of the Added Territory, the Properties, the Common Property, and any interest therein, and shall inure to the benefit of, be binding upon, and may be enforced by any Owner, Declarant, each successor in interest of Declarant, the Association, and their successive owners and assigns. Except as otherwise provided herein, the capitalized terms in this Notice of Addition shall have the same meanings as are given such terms by the Declaration. Except as otherwise expressly provided herein, all of the provisions of the Declaration are hereby incorporated by reference as if fully set forth herein.

10. **Exhibits.** All exhibits to this Notice of Addition are incorporated in this Notice of Addition by this reference.

[Signatures on Following Page]

CERTIFICATE OF RECORDED GOVERNING DOCUMENTS

I, Christine LaGrue, an employee of Equity Management, the duly appointed agent for Vallecitas Ridge Association hereby certify that on March 1, 2006, I received the recorded Covenants, Conditions & Restrictions, or Amendment thereof, for the above-mentioned Association. I hereby certify that I have printed on each page of said document the date it was recorded by the County Recorder's Office and the document number.

[Signature]
SIGNATURE

[Signature]
WITNESS

March 1, 2006
DATE

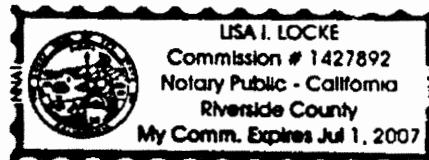
State of California

County of Riverside

On March 1, 2006 before me, Lisa I. Locke, Notary Public, personally appeared CHRISTINE LA GRUE personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that ~~he~~she executed the same in ~~his~~her authorized capacity, and that by ~~his~~her signature on the instrument the person, or the entity upon behalf of which the person acted, executed this instrument.

WITNESS my hand and official seal.

[Signature]
Signature of Notary Public



ORIG: CC&Rs / ATTACHED

FORMS/CC&RS RECORD.GEN