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By-Laws of Edgemont Highlands Community Association, Inc.

ARTICLE I NAME, PRINCIPAL OFFICE, AND DEFINITIONS

1.1 Name

The name of the corporation is Edgemont Highlands Community Association, Inc. (the "Association").

1.2 Principal Office

The Association's principal office shall be located in La Plata County, Colorado. The Association may have such other offices, either within or outside Edgemont Highlands as the Board of Directors may determine or as the Association's affairs may require.

1.3 Definitions

The words used in these By-Laws shall be given their normal, commonly understood definitions. Capitalized terms shall have the same meaning as set forth in that certain Recorded Declaration of Covenants, Conditions, and Restrictions for Edgemont Highlands and any Supplemental Declaration(s), unless the context indicates otherwise.

ARTICLE II MEMBERSHIP: MEETINGS, QUORUM, VOTING, PROXIES

2.1 Membership

The Association shall have two classes of membership, Class "A" and Class "B", as more fully set forth in the Declaration. The provisions of the Declaration pertaining to membership are incorporated by this reference.

2.2 Voting Rights

Each Unit Owner shall have one vote. When more than one person holds ownership interest in a Unit, the vote allocated to the Owner shall be exercised as they among themselves determine. In no event may more than one vote be cast with respect to any Unit.

2.3 Place of Meetings

Association meetings shall be held at the principal office of the Association or at such other suitable place convenient to the Members as the Board may designate.

2.4 Annual Meetings

The Association shall hold its first meeting, whether a regular or special meeting, within one year after the date of the Association's incorporation. The Board shall set the date and time of subsequent regular annual meetings. Annual meetings may be conducted electronically (i.e., via the Internet, intranet or teleconference) if, and to the extent, permitted by law.

2.5 Special Meetings

The President may call special meetings. It shall also be the President's duty to call a special meeting if so directed by Board resolution or upon a petition signed by Members representing at least 10% of the total Class "A" votes of the Association.

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2.6 Notice of Meetings

Written or printed notice stating the place, day, and hour of any meeting of the Members shall be delivered either personally or by mail, to each Member entitled to vote at such meeting, no fewer than ten days, or if notice is mailed by other than first class or registered mail, no fewer than thirty days, nor more than sixty days before the meeting date, and if notice is given by newspaper as provided in section 7-121-402(2), the notice must be published five separate times with the first such publication no more than sixty days, and the last such publication no fewer than ten days, before the meeting date by or at the direction of the President or the Secretary or the officers or persons calling the meeting.

In the case of a special meeting or when otherwise required by statute or these By-Laws, the purpose or purposes for which the meeting is called shall be stated in the notice. No business shall be transacted at a special meeting except as stated in the notice.

If mailed, the notice shall be deemed to be delivered when deposited in the United States mail addressed to the Member at his address as it appears on the Association's records, with postage prepaid.

2.7 Waiver of Notice

Waiver of notice of a meeting of the Members shall be deemed the equivalent of proper notice. Any Member may waive, in writing, notice of any meeting of the Members, either before or after such meeting. Attendance at a meeting by a Member shall be deemed waiver by such Member of notice of the time, date, and place thereof, unless such Member specifically objects to lack of proper notice at the time the meeting is called to order.

2.8 Adjournment of Meeting

If the Association cannot hold a meeting because a quorum is not present, a majority of the Members who are present at such meeting may adjourn the meeting to time not less than five nor more than thirty days from the time the original meeting was called. At the reconvened meeting, if a quorum is present, any business may be transacted which might have been transacted at the meeting originally called. If a time and place for reconvening the meeting is not fixed by those in attendance at the original meeting or if for any reason a new date is fixed for reconvening the meeting after the adjournment, notice of the time and place for reconvening the meeting shall be given to Members in the manner prescribed for regular meetings.

Members present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum, provided that any action taken is approved by at least a majority of the votes required to constitute a quorum.

2.9 Proxies

On any matter as to which a Member is entitled personally to cast the vote for his or her Unit, such vote may be cast in person or by proxy, subject to the limitations of Colorado law relating to use of general proxies and subject to any specific provision to the contrary in the Declaration or these By-Laws.

Every proxy shall be in writing specifying the Unit for which it is given, signed by the Member or his duly authorized attorney-in-fact, dated, and filed with the Association's Secretary prior to the meeting for which it is to be effective. Unless otherwise specifically provided in the proxy, a proxy shall be presumed to cover all votes which the Member giving such proxy is entitled to cast, and in the event of any conflict between two or more proxies purporting to cover the same voting rights, the later dated proxy shall prevail, or if dated as of the same date, both shall be deemed invalid.

Every proxy shall be revocable and shall automatically cease upon: (a) conveyance of any Unit for which it was given, (b) receipt by the Secretary of written notice of revocation of the proxy or of the death or judicially declared incompetence of a Member who is a natural person, from the date of the proxy, unless a shorter period is specified in the proxy.

2.10 Majority

As used in these By-Laws, the term "majority" shall mean those votes, Owners, or other group as the context may indicate totaling more than 50% of the total eligible number.

2.11 Quorum

Except as otherwise provided in these By-Laws or in the Declaration, the presence of Members representing 10% of the Class "A" votes in the Association shall constitute a quorum at all Association meetings.

2.12 Conduct of Meetings

The President shall preside over all meetings of the Association, and the Secretary shall keep the minutes of the meetings and record in a minute book all resolutions adopted and all other transactions occurring at such meetings.

2.13 Action Without a Meeting

Any action required or permitted by law to be taken at a meeting of the Members may be taken without a meeting, without prior notice and without a vote if written consent specifically authorizing the proposed action is signed by Members holding at least the minimum number of votes necessary to authorize such action at a meeting if all Members entitled to vote thereon were present. Such consents shall be signed within sixty days after receipt of the earliest dated consent, dated and delivered to the Association. Such consents shall be filed with the Association's minutes and shall have the same force and effect as a vote of the Members at a meeting. Within ten days after receiving authorization for any action by written consent, the Secretary shall give written notice to all Members entitled to vote who did not give their written consent, fairly summarizing the material features of the authorized action.

ARTICLE III BOARD OF DIRECTORS: SELECTION, MEETINGS, POWERS

A. Composition and Selection

3.1 Governing Body; Composition

The Board of Directors shall govern the Association's affairs. Each director shall have one vote. Except for directors appointed by the Class "B" Member, directors shall be Members or residents. However, no Owner and resident representing the same Unit may serve on the Board at the same time. A "resident" shall be any natural person 18 years of age or older whose principal residence is a Unit within Edgemont Highlands. If a Member is not a natural person, any officer, director, partner or trust officer of such Member shall be eligible to serve as a director unless otherwise specified by written notice to the Association signed by such Member. However, no Member may have more than one such representative on the Board at a time, except in the case of directors appointed by the Class "B" Member.

3.2 Number of Directors

The Board shall consist of three to seven directors as provided in Sections 3.3 and 3.5. The initial Board shall consist of three directors as identified in the Articles of Incorporation.

3.3 Directors During Class "B" Control Period

The Class "B" Member shall have complete discretion in appointing its directors under Section 3.5. Class "B" Member-appointed directors shall serve at the pleasure of the Class "B" Member.

3.4 Nomination and Election Procedures

(a) **Nominations and Declarations of Candidacy.** Prior to each election of directors, the Board shall prescribe the opening date and the closing date of a reasonable filing period in which each and every eligible person who has a bona-fide interest in serving as a director may file as a candidate for any position to be filled by Class "A" votes. The Board shall also establish such other rules and regulations as it deems appropriate to conduct the nomination of directors in a fair, efficient, and cost-effective manner. Nominations also may be permitted from the floor.

Except with respect to directors selected by the Class "B" Member, a Nominating Committee may also make nominations for election to the Board. The Nominating Committee, if any, shall consist of a Chairman, who shall be a member of the Board, and three or more Members. Members of the Nominating Committee shall be appointed by the Board not less than 30 days prior to each annual meeting to serve a term of one year and until their successors are appointed, and such appointment shall be announced in the notice of each election.

The Nominating Committee may make as many nominations for election to the Board as it shall in its discretion determine. In making its nominations, the Nominating Committee shall use reasonable efforts to nominate candidates representing the diversity that exists within the pool of potential candidates.

The Board shall give each candidate a reasonable, equal opportunity to communicate his or her qualifications to the Members and to solicit votes.

3.5 Election and Term of Office

Except as these By-Laws may otherwise specifically provide, election of directors shall take place at the Association's annual meeting. Notwithstanding any other provision of these By-Laws:

(a) Within sixty days after the time that Class "A" Members own 25% of the Units that may be created according to the Master Plan for the property described in Exhibits "A" and "B" of the Declaration, or whenever the Class "B" Member earlier determines, the President shall call for an election by which the Members shall be entitled to elect one of the three directors, who shall be an at-large director. The remaining directors shall be appointees of the Class "B" Member. The director elected by the Members shall not be subject to removal by the Class "B" Member and shall be elected for a term of two years or until the happening of the event described in subsection (b), whichever is shorter. If such director's term expires prior to the happening of the event described in subsection (b), a successor shall be elected for a like term.

(b) Within sixty days after the time that Class "A" Members other than Builders own 50% of the Units that may be created according to the Master Plan for the property described in Exhibit "A" and "B" of the Declaration, or whenever the Class "B" Member earlier determines, the Board shall be increased to five directors. The President shall call for an election by which the Members shall be entitled to elect two of the five directors. The remaining three directors shall be appointees of the Class "B" Member. Directors elected by the Members shall not be subject to removal by the Class "B" Member shall be elected for a term of two years or until the happening of the event described in subsection (c), whichever is shorter. If such directors' terms expire prior to the happening of the even described in subsection (c), successors shall be elected for a like term.

(c) Within sixty days after termination of the Class "B" Control Period, the President shall call for an election by which the Members shall be entitled to elect three of the five directors. The remaining two directors shall be appointees of the Class "B" Member. Directors elected by the Members shall not be subject to removal by the Class "B" Member and shall serve until the first annual meeting following the termination of the Class "B" Control Period. If such annual meeting is scheduled to occur within sixty days after termination of the Class "B" Control Period, this subsection shall not apply and directors shall be elected in accordance with subsection (d).

(d) Not later than the first annual meeting after the termination of the Class "B" Control Period, the Board shall be increased to seven directors and an election shall be held. Six directors shall be elected by the Members. Three directors shall serve a term of two years and three directors shall serve a term of one year, as such directors determine among themselves.

Until termination of the Class "B" membership, the Class "B" Member shall be entitled to appoint one director. Upon termination of the Class "B" membership, the director elected by the Class "B" Member shall resign and the remaining directors shall be entitled to appoint a director to serve until the next annual meeting, at which time the Members shall be entitled to elect a director to fill such position. Such director shall be elected for a term of two years.

Upon expiration of the term of office of each director elected by the Members, Members entitled to elect such director shall be entitled to elect a successor to serve a term of two years. Directors elected by the Members shall hold office until their respective successors have been elected.

3.6 Removal of Directors and Vacancies

Any director elected by the Members may be removed, with or without cause, by the vote of Members holding a majority of the votes entitled to be cast for the election of such director. Any director whose removal is sought shall be given notice prior to any meeting called for that purpose. Upon removal of a director, a successor shall be elected by the Members entitled to elect the director so removed to fill the vacancy for the remainder of the term of such director.

Any director elected by the Members who has three consecutive unexcused absences from Board meetings, or who is more than sixty days delinquent (or is the representative of a Member who is so delinquent) in the payment of any assessment or other charge due the Association, may be removed by a majority of the directors present at a regular or special meeting at which a quorum is present, and the Board may appoint a successor to fill the vacancy for the remainder of the term.

In the event of the death, disability, or resignation of a director, the Board may declare a vacancy and appoint a successor to fill the vacancy until the next annual meeting, at which time the Members entitled to fill such directorship may elect a successor for the remainder of the term.

This Section shall not apply to directors appointed by the Class "B" Member or to any director serving as Declarant's representative. The Class "B" Member or Declarant shall be entitled to appoint a successor to fill any vacancy on the Board resulting from the death, disability or resignation of a director appointed by or elected as a representative of the Class "B" Member or Declarant.

B. Meetings

3.7 Organizational Meetings

The first Board meeting following each annual meeting of the membership shall be held within ten days thereafter at such time and place as the Board shall fix.

3.8 Regular Meetings

Regular Board meetings may be held at such time and place as a majority of the directors shall determine, but at least four such meetings shall be held during each fiscal year with at least one per quarter.

3.9 Special Meetings

Special meetings of the Board shall be held when called by written notice signed by the President or Vice President or by any two directors.

3.10 Notice; Waiver of Notice

(a) Notices of Board meetings shall specify the time and place of the meeting and, in the case of a special meeting, the nature of any special business to be considered. The notice shall be given to each director by: (i) personal delivery; (ii) first class mail, postage prepaid; (iii) telephone communication, either directly to the director or to a person at the director's office or home who would reasonably be expected to communicate such notice promptly to the director, or (iv) facsimile, computer, fiber optics or other electronic communication device, with confirmation of transmission. All such notices shall be given at the director's telephone number, fax number, electronic mail number, or sent to the director's address as shown on the records of the Association. Notices sent by first class mail shall be deposited into a United States mailbox at least five business days before the time set for the meeting. Notices given by personal delivery, telephone, or other device shall be delivered or transmitted at least 72 hours before the time set for the meeting.

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

3.11 Telephone Participation In Meetings

Members of the Board or any committee designated by the Board may participate in a meeting of the Board or committee by means of conference telephone or similar communications equipment, by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this subsection shall constitute presence in person at such meeting.

3.12 Quorum of Board

At all Board meetings, a majority of the directors shall constitute a quorum for the transaction of business, and the votes of a majority of the directors present at a meeting at which a quorum is present shall constitute the Board's decision, unless otherwise specifically provided in these By-Laws or the Declaration. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting. If any Board meeting cannot be held because a quorum is not present, a majority of the directors present at such meeting may adjourn the meeting to a time not less than five nor more than thirty days from the date of the original meeting. If a quorum is present at the reconvened meeting, any business which might have been transacted at the meeting originally called may be transacted without further notice.

3.13 Conduct of Meeting

The President shall preside over all Board meetings, and the Secretary shall keep a minute book of Board meetings, recording all Board resolutions and all transactions and proceedings occurring at such meetings.

3.14 Open Meetings: Executive Session

(a) Except in an emergency, notice of Board meetings shall be posted at least 48 hours in advance of the meeting at a conspicuous place within the Property which the Board establishes for the posting of notices relating to the Association. Notice of any meeting at which assessments are to be established shall state that fact and the nature of the assessment. Subject to the provisions of Section 3.15, all Board meetings shall be open to all Members; but attendees other than directors may not participate in any discussion or deliberation unless a director requires that they be granted permission to speak. In such case, the President may limit the time any such individual may speak.

(b) Notwithstanding the above, the President may adjourn any meeting of the Board and reconvene in executive session, and may exclude persons other than directors, to discuss:

- i. Matters pertaining to employees of the association or involving the employment, promotion, discipline, or dismissal of an officer, agent, or employee of the association;
- ii. Consultation with legal counsel concerning disputes that are the subject of pending or imminent court proceedings or matters that are privilege or confidential between attorney and client;
- iii. Investigative proceedings concerning possible or actual criminal misconduct;
- iv. Matters subject to specific constitutional, statutory, or judicially imposed requirements protecting particular proceedings or matters from public disclosure;
- v. Any matter the disclosure of which would constitute an unwarranted invasion of individual privacy.

3.15 Action Without a Formal Meeting

Any action to be taken of the directors or any action that may be taken at a meeting of the directors may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all of the directors, and such consent shall have the same force and effect as a unanimous vote.

C. Powers and Duties

3.16 Powers

The Board shall have all of the powers and duties necessary for the administration of the Association's affairs and for performing all responsibilities and exercising all rights of the Association as set forth in the Governing Documents, and as provided by law. The Board may do or cause to be done on behalf of the Association all acts and things except those the Governing Documents or Colorado law require to be done and exercised exclusively by the Members or the membership generally.

3.17 Duties

The Board's duties shall include, without limitation:

- (a) preparing and adopting, in accordance with the Declaration, an annual budget establishing each Owner's share of the Common Expenses and any Neighborhood Expenses, if any;

- (b) levying and collecting such assessments from the Owners;
- (c) providing for the operation, care, upkeep, and maintenance of the Area of Common Responsibility consistent with the Community-Wide Standard;
- (d) designating, hiring, and dismissing personnel necessary to carry out the Association's rights and responsibilities and where appropriate, providing for compensation of such personnel and for the purchase of equipment, supplies, and materials to be used by such personnel in the performance of their duties;
- (e) depositing all funds received on behalf of the Association in a bank depository which it shall approve, and using such funds to operate the Association; provided, any reserve funds may be deposited, in the Board's best judgment, in depositories other than banks.
- (f) making and amending use restrictions and rules in accordance with the Declaration;
- (g) opening bank accounts on behalf of the Association and designating the signatories required;
- (h) making or contracting for the making of repairs, additions, and improvements to or alterations of the Common Area in accordance with the Declaration and these By-Laws;
- (i) enforcing by legal means the provisions of the Governing Documents and bringing any proceedings which may be instituted on behalf of or against the Owners concerning the Association; provided, the Association's obligation in this regard shall be conditioned in the manner provided in the Declaration;
- (j) obtaining and carrying property and liability insurance and fidelity bonds, as provided in the Declaration, paying the cost thereof, and filing and adjusting claims, as appropriate;
- (k) paying the cost of all services rendered to the Association;
- (l) keeping books with detailed accounts of the Association's receipts and expenditures;
- (m) making available to any prospective purchaser of a Unit, any Owner, and the holders, insurers, and guarantors of any Mortgage on any Unit, current copies of the Governing Documents and all other books, records, and financial statements of the Association as provided in Section 6.4;
- (n) permitting utility suppliers to use portions of the Common Area reasonably necessary to the ongoing development or operation of the Property;
- (o) indemnifying a director, officer or committee member, or former director, officer or committee member of the Association to the extent such indemnity is required by Colorado law, the Articles of Incorporation or the Declaration; and
- (p) assisting in the resolution of disputes between owners and others without litigation, as set forth in the Declaration.

3.18 Compensation

The Association shall not compensate any Director for acting as such unless approved by Members representing a majority of the total Class "A" votes in the Association. Any director may be reimbursed for expenses incurred on behalf of the Association upon approval of a majority of the other directors. Nothing herein shall prohibit the Association from compensating a director, or any entity with which a director is affiliated, for services or supplies furnished to the Association in a capacity other than as a director pursuant to a contract or agreement with the Association, provided that such director's interest was made known to the

Board prior to entering into such contract and such contract was approved by a majority of the Board, excluding the interested director.

3.19 Right of Class "B" Member to Disapprove Actions

So long as the Class "B" membership exists, the Class "B" Member shall have a right to disapprove any action, policy or program of the Association, the Board and any committee which, in the sole judgment of the Class "B" Member, would tend to impair rights of Declarant or Builders under the Declaration or these By-Laws, or interfere with development or construction of any portion of Edgemont Highlands, or diminish the level of services being provided by the Association.

(a) **Notice.** The Association, the Board, and each committee shall give the Class "B" Member written notices of all meetings and proposed actions approved at meetings (or by written consent in lieu of a meeting). Such notice shall be given by certified mail, return receipt requested, or by personal delivery at the address it has registered with the Association's Secretary, which notice complies as to Board meetings with Sections 3.8, 3.9, 3.10 and 3.11 and which notice shall, except in the case of the regular meetings held pursuant to the By-Laws, set forth with reasonable particularity the agenda to be followed at such meeting; and

(b) **Opportunity to be Heard.** The Association, the Board, and each committee shall give the Class "B" Member the opportunity at any meeting to join in or to have its representatives or agents join in discussion from the floor of any prospective action, policy, or program which would be subject to the right of disapproval set forth herein.

No action, policy or program subject to the right of disapproval set forth herein shall become effective or be implemented until and unless the requirements of subsections (a) and (b) have been met.

The Class "B" Member, its representatives or agents shall make its concerns, thoughts, and suggestions known to the Board and/or the members of the subject committee. The Class "B" Member, acting through any officer or director, agent or authorized representative, may exercise its right to disapprove at any time within 10 days following the meeting at which such action was proposed or, in the case of any action taken by written consent in lieu of a meeting, at any time within 10 days following receipt of written notice of the proposed action. This right to disapprove may be used to block proposed actions but shall not include a right to require any action or counteraction on behalf of any committee, the Board, or the Association. The Class "B" Member shall not use its right to prevent, disapprove or reduce the level of services which the Association is obligated to provide or to prevent capital repairs or any expenditure required to comply with applicable laws and regulations.

3.20 Management

The Board may employ a professional management agent or agents at such compensation as the Board may establish, to perform such duties and services as the Board shall authorize. The Board may delegate such powers as are necessary to perform the manager's assigned duties, but shall not delegate policy-making authority or those duties set forth in Sections 3.17(a) (with respect to adoption of the budget), 3.17(b), 3.17(f), 3.17(g) and 3.17(i). Declarant or its affiliates may be employed as managing agent or manager.

The Board may delegate to one of its members the authority to act on the Board's behalf on all matters relating to the duties of the managing agent or manager, if any, which might arise between Board meetings.

The Association shall not be bound, either directly or indirectly, by any management contract executed during the Class "B" Control Period unless such contract contains a right of termination that the Association may exercise, with or without cause and without penalty, at any time after termination of the Class "B" Control Period upon not more than 90 days' written notice.

3.21 Accounts and Reports

The following management standards of performance shall be followed unless the Board by resolution specifically determines otherwise;

- (a) accrual accounting, as defined by generally accepted accounting principles, shall be employed;
- (b) accounting and controls should conform to generally accepted accounting principles;
- (c) cash accounts of the Association shall not be commingled with any other accounts;
- (d) the managing agent shall not accept remuneration from vendors, independent contractors, or others providing goods or services to the Association, whether in the form of commissions, finder's fees, service fees, prizes, gifts, or otherwise; the Association shall benefit from anything of value received;
- (e) any financial or other interest the managing agent may have in any firm providing goods or services to the Association shall be disclosed promptly to the Board;
- (f) commencing at the end of the quarter in which the first Unit is sold and closed, financial reports shall be prepared for the Association at least quarterly containing:
 - i. an income statement reflecting all income and expense activity for the preceding period on an accrual basis;
 - ii. a statement reflecting all cash receipts and disbursements for the preceding period;
 - iii. a variance report reflecting the status of all accounts in an "actual" versus "approved" budget format;
 - iv. a balance sheet as of the last day of the preceding period; and
 - v. a delinquency report listing all Owners who are delinquent in paying any assessments at the time of the report and describing the status of any action to collect such assessments which remain delinquent (any assessment or installment thereof shall be considered to be delinquent on the fifteenth day following the due date unless otherwise specified by the Board resolution); and
- (g) an annual report consisting of at least the following shall be made available to all Members within one hundred twenty days after the close of the fiscal year: (i) a balance sheet, (ii) an operating (income) statement; and (iii) a statement of changes in financial position for the fiscal year. Such annual report shall be prepared on an audited, reviewed, or compiled basis, as the Board determines, by an independent public accountant; provided, upon written request of any holder, guarantor or insurer of any first Mortgage on a Unit, the Association shall provide an audited financial statement. During the Class "B" Control Period, the annual report shall include certified financial statements.

3.22 Borrowing

The Association may borrow money for any legal purpose; provided, the Board shall obtain Member approval in the same manner provided in the Declaration for Special Assessments if the proposed borrowing is for the purpose of making discretionary capital improvements and the total amount of such borrowing, together with all other debt incurred within the previous 12-month period, exceeds or would exceed 10% of the Association's budgeted gross expenses for that fiscal year. During the Class "B" Control Period, no Mortgage lien shall be placed on any portion of the Common Area without the affirmative vote or written consent, or any combination thereof, of Members representing at least 67% of the total Class "A" votes.

3.23 Right to Contract

The Association shall have the right to contract with any Person for the performance of various duties and functions. This right shall include, without limitation, the right to enter into common management, operational, or other agreements with trusts, condominiums, cooperatives, or Neighborhood and other owners or residents associations, within and outside Edgemont Highlands. Any common management agreement shall require the consent of a majority of the Board.

3.24 Enforcement

The Association may impose sanctions for any violations of the Governing Documents. To the extent specifically required by the Declaration, the Board shall comply with the following procedures prior to imposition of sanction:

(a) **Notice.** The Board or its delegate shall serve the alleged violator with written notice describing (i) the nature of the alleged violation, (ii) the proposed sanction to be imposed, (iii) a period of not less than 10 days within which the alleged violator may present a written request for a hearing to the Board; and (iv) a statement that the proposed sanction shall be imposed as contained in the notice unless a challenge is begun within ten days of the notice. If a timely request for a hearing is not made, the sanction stated in the notice shall be imposed; provided the Board may, but shall not be obligated to, suspend any proposed sanction if the violation is cured within the 10-day period. Such suspension shall not constitute a waiver of the right to sanction future violations of the same or other provisions and rules by any Person.

(b) **Hearing.** If a hearing is requested within the allotted ten day period, the hearing shall be held before the Board. The alleged violator shall be afforded a reasonable opportunity to be heard. Prior to the effectiveness of any sanction hereunder, proof of proper notice shall be placed in the minutes of the meeting. Such proof shall be deemed adequate if a copy of the notice, together with a statement of the date and manner of delivery, is entered by the officer, director, or agent who delivered such notice. The notice requirement shall be deemed satisfied if the alleged violator or its representative appears at the meeting. The minutes of the meeting shall contain a written statement of the results of the hearing and the sanction, if any, imposed.

(c) **Additional Enforcement Rights.** Notwithstanding anything to the contrary in this Article, the Board may elect to enforce any provisions of the Governing Documents by self-help (specifically including, but not limited to, towing vehicles that violate parking rules) or, following compliance with the dispute resolution procedures set forth in the Declaration, if applicable, by suit at law or in equity to enjoin any violation or to recover monetary damages or both, without the necessity of compliance with the procedure set forth above. In any such action, to the maximum extent permissible, the Owner or occupant responsible for the violation of which abatement is sought shall pay all costs, including reasonable attorney's fees actually incurred. Any entry onto a Unit for purposes of exercising this power of self-help shall not be deemed as trespass.

3.25 Board and Officer Training

The Board shall conduct or provide for seminars and continuing educational opportunities designed to educate and inform its officers and directors of their responsibilities as officers and directors. Such programs may include instruction on applicable Colorado corporate and fiduciary law principles, other issues relating to administering community affairs, and upholding and enforcing the Governing Documents. The Board may retain industry professionals, which may include property managers, attorneys, and accountants, as appropriate or necessary for such purpose. Each newly elected officer and director shall complete a training seminar within the first six months of assuming such position. The seminar may be live, video or audiotape, or in other format.

In a similar manner, the Board may provide or provide for Owner and resident education and training opportunities designed to foster awareness of Edgemont Highlands' governance, operations, and concerns. The Board shall conduct or provide for training and information classes designed to educate Neighborhood

Representatives and Class "A" Members of the nomination, election, and voting processes and the duties and responsibilities of directors and officers, as provided in Section 3.4.

3.26 Board Standards and Conflicts of Interest

Board Standards

Board determinations of the meaning, scope, and application of Governing Documents provisions shall be upheld and enforced so long as such determinations are reasonable. The Board shall exercise its power in a fair and nondiscriminatory manner and shall adhere to the procedures established in the Governing Documents.

Conflicts of Interest

A director shall promptly disclose in writing to the Board any actual or potential conflict of interest affecting the directors relative to his or her performance as a director. A director's failure to make such disclosure shall be grounds for removal by a majority vote of the other Board members. Notwithstanding the foregoing or anything herein to the contrary, directors appointed by the Class "B" Member may be employed by or otherwise transact business with Declarant or any affiliate of Declarant, and Declarant and its affiliates may transact business with the Association or its contractors.

3.27 Indemnification of Officers and Directors

In the performance of their duties, Association directors and officers shall be insulated from personal liability as provided by Colorado law for directors and officers of nonprofit corporations, and as otherwise provided in the Governing Documents. Except in connection with a proceeding by or in the right of the Association in which the Director and/or Officer was adjudged liable to the Association; or in connection with any other proceeding charging that the Director and/or Officer derived an improper personal benefit, whether or not involving action in an official capacity, in which proceeding the Director and/or Officer was adjudged liable on the basis that the Director and/or Officer derived an improper personal benefit, the Association shall indemnify a person made a party to a proceeding because the person is or was a Director and/or Officer against liability incurred in the proceeding if:

- The person's conduct was in good faith;
- The person acted on a disinterested basis, promptly disclosed any real or potential conflict of interests (pecuniary or other), and avoided participation in decisions and actions when a conflict existed; and
- The person reasonably believed:
- In the case of conduct in an official capacity with the Association, that the conduct was in the Association's best interests; and
- In all other cases, that the conduct was at least not opposed to the Association's best interests; and
- In the case of any criminal proceeding, the person had no reasonable cause to believe the conduct was unlawful.

3.28 Advance of Expenses

The Association may pay for or reimburse the reasonable expenses incurred by a Director and/or Officer who is a party to a proceeding in advance of final disposition of the proceeding if:

- The Director and/or Officer furnishes to the Association a written affirmation of the Director and/or Officer's good faith belief that the Director and/or Officer has met the standard of conduct described in this Section 3.28;
- The Director and/or Officer furnishes to the Association a written undertaking, executed personally or on the Director and/or Officer's behalf, to repay the advance if it is ultimately determined that the Director

- and/or Officer did not meet the standard of conduct; and
- A determination is made that the facts then known to those making the determination would not preclude indemnification under this Section 3.28 or the Colorado Revised Nonprofit Corporation Act.

The undertaking required above shall be an unlimited general obligation of the Director and/or Officer but need not be secured and may be accepted without reference to financial ability to make repayment. The expenses as to which indemnification or advancement pertain under this Section 3.28, include all legal fees and costs incurred, including expert witness fees, from the time the claim is first asserted until resolved.

3.29 Determination and Authorization of Indemnification of Director and/or Officers

The Association may not indemnify a Director and/or Officer until a determination has been made in a specific case that indemnification of the Director and/or Officer is permissible in the circumstances because the Director and/or Officer has met the standard of conduct set forth in this Section 3.29. The Association shall not advance expenses to a Director and/or Officer unless authorized in the specific case after the written affirmation and undertaking as required by this Section 3.29 are received and the determination required by this Section 3.26 has been made. The determinations required by this Section shall be made:

- By the board of Director and/or Officers by a majority vote of those present at a meeting at which a quorum is present, and only those Director and/or Officers not parties to the proceeding shall be counted in satisfying the quorum; or
- If a quorum cannot be obtained, by a majority vote of a committee of the Board of Directors designated by said Board, which committee shall consist of two or more Directors not parties to the proceeding; except that the Directors who are parties to the proceeding may participate in the designation of Directors for the committee.

If a quorum cannot be obtained as contemplated above, and a committee cannot be established as above set forth, or, even if a quorum is obtained or a committee is designated, if a majority of the Directors constituting such quorum or such committee so directs, the determination required to be made by this section shall be made:

- By independent legal counsel selected by a vote of the Board of Directors or the committee in the manner specified herein or, if a quorum of the full board cannot be obtained and a committee cannot be established, by independent legal counsel selected by a majority vote of the full Board of Directors; or
- By the voting members, but voting members who are also Directors and who are at the time seeking indemnification may not vote on the determination.

Authorization of indemnification and advance of expenses shall be made in the same manner as the determination that indemnification or advance of expenses is permissible; except that, if the determination that indemnification or advance of expenses is permissible is made by independent legal counsel, authorization of indemnification and advance of expenses shall be made by the body that selected such counsel.

ARTICLE IV OFFICERS

4.1 Officers

The Association's officers shall be a President, Vice President, Secretary, and Treasurer. The President and Secretary shall be elected from among Board members; other officers may, but need not be Board members. The Board may appoint such other officers, including one or more Assistant Secretaries and one or more Assistant Treasurers, as it shall deem desirable, such officers to have such authority and perform such duties as the Board prescribes. The same person may hold any two or more offices, except the offices of President and Secretary.

4.2 Election and Terms of Office

The Board shall elect the Association's officers at the first Board meeting following each annual meeting of the Members, to serve until their successors are elected.

4.3 Removal and Vacancies

The Board may remove any officer whenever in its judgment the best interests of the Association will be served, and may fill any vacancy in any office arising because of death, resignation, removal, or otherwise, for the unexpired portion of the term.

4.4 Powers and Duties

The Association's officers shall each have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as may specifically be conferred or imposed by the Board. The President shall be the Association's chief executive officer. The Treasurer shall have primary responsibility for preparation of the budget as provided for in the Declaration and may delegate all or part of the preparation and notification duties to a finance committee, management agent, or both.

4.5 Resignation

Any officer may resign at any time by giving written notice to the Board, the President, or the Secretary. Such resignation shall take effect on the date of the receipt of such notice or at any later time specified therein, and unless otherwise specified therein, acceptance of such resignation shall not be necessary to make it effective.

4.6 Agreements, Contracts, Deeds, Leases, Checks, Etc.

At least two officers or such other person(s) as the Board may designate shall execute the Association's agreements, contracts, deeds, leases, and other instruments.

4.7 Compensation

Compensation of officers shall be subject to the same limitations as compensation of directors under Section 3.18.

ARTICLE V COMMITTEES

5.1 General

The Board may appoint such committees as it deems appropriate to perform such tasks and to serve for such periods as the Board may designate by resolution. Each committee shall operate in accordance with the terms of such resolution.

5.2 Covenants Committee

In addition to any other committees the Board may establish pursuant to Section 5.1, the Board may appoint a Covenants Committee consisting of at least three and no more than seven Members. Acting in accordance with the provisions of the Declaration, these By-Laws, and resolutions the Board may adopt, the Covenants Committee, if established, shall be the hearing tribunal of the Association and shall conduct all hearings held pursuant to Section 3.24.

ARTICLE VI MISCELLANEOUS

6.1 Fiscal Year

The Association's fiscal year shall be the calendar year unless the Board establishes a different fiscal year by resolution.

6.2 Parliamentary Rules

Except as may be modified by Board resolution, *Robert's Rules of Order* (current edition) shall govern the conduct of Association proceedings when not in conflict with Colorado law of the Governing Documents.

6.3 Conflicts

If there are conflicts among the provisions of Colorado law, the Articles of Incorporation, the Declaration, and these By-Laws, the provisions of Colorado law, the Declaration, the Articles of Incorporation, and the By-Laws (in that order) shall prevail.

6.4 Books and Records

(a) Inspection by Members and Mortgagees. The Board shall make available for inspection and copying by any holder, insurer or guarantor of a first Mortgage on a Unit, any Member, or the duly appointed representative of any of the foregoing at any reasonable time and for a purpose reasonable related to his or her interest in a Unit: the Governing Documents, the membership register, books of account, and the minutes of meetings of the Members, the Board, and committees. The Board shall provide for such inspection to take place at the Association's office or at such other place within Edgemont Highlands as the Board shall designate.

(b) Rules for Inspection. The Board shall establish rules with respect to (i) notice to be given to the custodian of the records; (ii) hours and days of the week when such an inspection may be made; and (iii) payment of the cost of reproducing documents requested.

(c) Inspection by Directors. Every director shall have the absolute right at any reasonable time to inspect all books, records, and documents of the Association and the physical properties owned or controlled by the Association. A director's right of inspection includes the right to make a copy of relevant documents at the Association's expense.

6.5 Notices

Except as otherwise provided in the Declaration or these By-Laws, all notices, demands, bills, statements, or other communications under the Declaration or these By-Laws shall be in writing and shall be deemed to have been duly given if delivered or if sent by United States mail, first class postage prepaid:

(a) if to a Member, at the address which the Member has designated in writing and filed with the Secretary or, if no such address has been designated, at the address of the Unit of such Member;

(b) if to the Association, the Board, or the managing agent, at the principal office of the Association or the managing agent or at such other address as shall be designated by notice in writing to the Members pursuant to this Section; or

(c) if to any committee, at the principal address of the Association or at such other address as shall be designated by notice in writing to the Members pursuant to this Section.

6.6 Amendment

(a) By Class "B" Member. Prior to termination of the Class "B" Control Period, the Class "B" Member may unilaterally amend these By-Laws consistent with applicable law. Thereafter, the Class "B" Member may unilaterally amend these By-Laws at any time and from time to time if such amendment is necessary (i) to bring any provision into compliance with any applicable governmental statute, rule or regulation, or judicial determination; (ii) to enable any reputable title insurance company to issue title insurance coverage on the Units; or (iii) to enable any institutional or governmental lender, purchaser, insurer or guarantor of mortgage loans, including, for example the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation, to make, purchase, insure or guarantee mortgage loans on the Units. However, any such amendment shall not adversely affect the title to any Unit unless the Owner shall consent thereto in writing.

(b) By Members Generally. Except as provided above, these By-Laws may be amended only by the affirmative vote or written consent, or any combination thereof, of Members representing 51% of the total Class "A" votes in the Association, and the consent of the Class "B" Member, if such exists. In addition, the approval requirements set forth in the Declaration shall be met, if applicable. Notwithstanding the above, the percentage of votes necessary to amend a specific clause shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause.

(c) Validity and Effective Date of Amendments. Amendments to these By-Laws shall become effective upon Recordation unless a later effective date is specified therein. Any procedural challenge to an amendment must be made within six months of its Recordation, or such amendment shall be presumed to have been validly adopted. In no event shall a change of conditions or circumstances operate to amend any provisions of these By-Laws.

No amendment may remove, revoke, or modify any right or privilege of Declarant or the Class "B" Member without the written consent of Declarant, the Class "B" Member, or the assignee of such right or privilege.

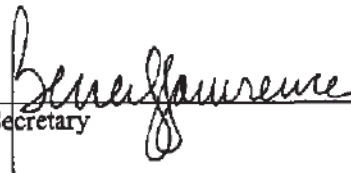
CERTIFICATION

I, the undersigned, do hereby certify:

That I am the duly elected and acting Secretary of Edgemont Highlands Community Association, a Colorado corporation;

That the foregoing By-Laws constitute the original By-Laws of said Association, as duly adopted at a meeting of the Board of Directors thereof held on the 8th day of JANUARY, 2004.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Association this 8th day of JANUARY, 2004.

 (SEAL)
Secretary

