

**BY-LAWS**  
**OF**  
**VERRADO COMMUNITY ASSOCIATION, INC.**

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**BY-LAWS  
OF  
VERRADO COMMUNITY ASSOCIATION, INC.  
Effective as of April 9, 2004**

**Chapter 1**

**Name, Principal Office, and Definitions**

*Government is a trust, and the officers of the government are trustees; and both the trust and the trustees are created for the benefit of the people. Henry Clay*

**1.1. Name.**

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

**1.2. Principal Office.**

The Association's principal office shall be located in Maricopa County, Arizona. The Association may have such other offices as the Board may determine or as the Association's affairs require.

**1.3. Definitions.**

The words used in these By-Laws shall be given their normal, commonly under-

stood definitions. Capitalized terms shall have the same meaning as set forth in that certain recorded Community Charter for Verrado, as it may be amended (the "Charter"). The term "majority," as used in these By-Laws, means those votes, Owners, or other group, as the context may indicate, totaling more than 50% of the total eligible number.

Space has been set aside throughout these By-Laws to allow the reader to make notes. Those spaces and the heading that denotes the spaces are not part of these By-Laws.

NOTES AND THOUGHTS

## Chapter 2

# Membership: Meetings, Quorum, Voting, Proxies

*We do not seek to have our way, but to find a common way. Lyndon B. Johnson*

### 2.1. Membership.

The Association shall have two classes of membership, Owner Membership and Founder Membership, as more fully set forth in the Charter. Provisions of the Charter pertaining to membership are incorporated by this reference.

### 2.2. Place of Meetings.

The Association shall hold meetings at the Association's principal office or at such other suitable place the Board may designate.

### 2.3. Association Meetings.

(a) *General.* Association meetings shall be of the Voting Delegates unless the Board otherwise specifies or Arizona law otherwise requires; provided, until Voting Delegates are selected, meetings shall be of the members and references in these By-Laws to Voting Delegates shall be deemed to be references to the members. The first Association meeting, whether a regular or special meeting, shall be held within one year after the Association's incorporation.

(b) *Annual Meetings.* The Board shall schedule regular annual meetings to occur within 90 days before or after the close of the Association's fiscal year, on such date and at such time and place as the Board shall determine.

(c) *Special Meetings.* The President may call special meetings. In addition, the President or the Secretary shall call a spe-

cial meeting if so directed by Board resolution or upon a petition which Voting Delegates representing at least 25% of the total votes in the Association sign.



Once Voting Delegates are elected to represent Neighborhoods, the Voting Delegates represent the Owners' interests at Association meetings. Due to the size of Ver-rado, this will assist in making Association meetings efficient.

### 2.4. Notice of Meetings.

The President, the Secretary, or the officers or other persons calling a meeting of the Voting Delegates shall deliver or cause to be delivered to each Voting Delegate entitled to vote at such meeting a written notice stating the place, day, and hour of the meeting. In the case of a special meeting or when otherwise required by statute, the Charter, or these By-Laws, the purpose or purposes for which the meeting is called shall also be stated in the notice. No business shall be transacted at a special meeting except as stated in the notice.

Such notice shall be delivered by such means as permitted under Section 9.5, at least 10 but not more than 50 days before the date of such meeting.

### 2.5. Waiver of Notice.

Waiver of notice of an Association meeting shall be deemed the equivalent of proper notice. Any Voting Delegate may waive, in writing, notice of any Association meeting, either before or after such meeting. A Vot-

ing Delegate's attendance at a meeting shall be deemed a waiver by such Voting Delegate of notice of the time, date, and place thereof, unless the Voting Delegate specifically objects to lack of proper notice at the time the meeting is called to order. Attendance at a special meeting also shall be deemed a waiver of notice of all business transacted at such meeting unless an objection on the basis of lack of proper notice is raised before the business is put to a vote.

## 2.6. Adjournment of Meetings.

If a quorum is not present at any Association meeting, the Voting Delegates representing a majority of the votes present at such meeting may adjourn the meeting to a time at least five but not more than 30 days from the scheduled date of the original meeting. 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 those in attendance at the original meeting do not fix a time and place for reconvening the meeting, or if for any reason a new date is fixed for reconvening the meeting after adjournment, the Board shall provide notice to the Voting Delegates of the time and place for reconvening the meeting in the manner prescribed for regular meetings. Those in attendance at the original meeting may continue to hold such meeting notwithstanding the lack of the presence of a quorum; however, the Association may not take any action at such meeting that would require the presence of a quorum of the members.

Voting Delegates present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the departure of enough Voting Delegates to leave less than a quorum, provided at least

a majority of the votes required to constitute a quorum must approve any action taken.

## 2.7. Voting.

(a) *Voting Rights.* Members shall have such voting rights as are set forth in the Charter, which provisions this reference specifically incorporates. Until such time as the Board first calls for election of a Voting Delegate for any Neighborhood, the Owners within such Neighborhood shall be entitled personally to cast the votes attributable to their respective Units on any issue requiring a membership vote under the Governing Documents.

(b) *Election of and Removal of Voting Delegates.* The Owners within each Neighborhood shall elect a Voting Delegate to cast all votes attributable to their Units on all Association matters requiring a membership vote, except as otherwise specified in the Charter or these By-Laws. In addition, each Neighborhood shall elect an alternate Voting Delegate who shall be responsible for casting such votes in the absence of the Voting Delegate.

The Founder may appoint an initial Voting Delegate from a Neighborhood at any time after 50% of the Units anticipated for that particular Neighborhood have been conveyed to Owners other than Builders. Thereafter, the Board shall call for an election of Voting Delegates and alternates on an annual basis. If the Founder has not appointed Voting Delegates by the termination of the Founder Control Period, the Owners may, at any time thereafter, elect a Voting Delegate and alternate Voting Delegate to represent their Neighborhood.

Voting Delegate elections shall be by ballots cast by mail, computer, or at a meeting of the Owners within such Neighborhood, as the Board determines. Upon written petition

signed by Owners holding at least 20% of the votes within any Neighborhood, the election for such Neighborhood shall be held at a meeting. Candidates for election as Voting Delegates may be nominated by the Board, a nominating committee the Board may appoint, or from the floor at any meeting at which such election is to be held. In addition or in the alternative, any Person may submit his or her name for consideration.

The presence, in person or by proxy, or the filing of ballots by Owners representing at least 25% of the total votes attributable to Units in the Neighborhood shall constitute a quorum for any Neighborhood meeting or election. In the event of a failure to obtain a quorum or vacancy in such positions for any Neighborhood, the Board may appoint a Voting Delegate or alternate Voting Delegate to represent such Neighborhood until a successor is elected.

Subject to the above quorum requirement, in any election of Voting Delegates the candidate who receives the greatest number of votes shall be elected as Voting Delegate and the candidate receiving the next greatest number of votes shall be elected as the alternate Voting Delegate. In the event of a tie vote among the leading candidates, the Voting Delegate shall be determined by drawing names from a hat, with the first person drawn being the Voting Delegate and the second being the alternate Voting Delegate. The Voting Delegate and the alternate Voting Delegate shall serve a term of one year or until their successors are elected, whichever is longer.

Any Voting Delegate may be removed, with or without cause, upon the vote or written petition of Owners representing a majority of the total number of Units in the

Neighborhood such Voting Delegate represents.

**VOTING DELEGATES**


- Until Voting Delegates exist, Owners vote on issues requiring membership vote
- The Founder may appoint initial Voting Delegate after Owners own 50% units in Neighborhood
- Thereafter, Board sets annual election where Owners in each Neighborhood elect Voting Delegates and alternates

• Voting Delegates are elected

- > at meeting of Owners within Neighborhoods
- > by mail ballots or
- > by computer

• Voting Delegates and alternates serve one-year terms

## 2.8. Proxies.

 A proxy is a legal term for the idea of one person giving a second person written authorization to act for them in an official capacity, such as voting.


Voting Delegates in their capacity as such may not vote by proxy but only in person or through their designated alternates. Any Owner Member entitled personally to cast the vote for his/her Unit on any matter may vote in person or by proxy, subject to the limitations of Arizona law and subject to any specific provision to the contrary in the Charter or these By-Laws.

Every proxy shall be in writing, shall identify the Unit for which it is given, and shall be 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 the proxy specifically provides otherwise, a proxy shall be presumed to cover the entire vote that the Member giving such proxy is entitled to cast. In the event of any conflict between two or more proxies pur-

porting 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) the Secretary's receipt of written notice of revocation of the proxy or of the death or judicially declared incompetence of a Member who is a natural person, or (c) 11 months from the date of the proxy, unless a shorter period is specified in the proxy.

**2.9. Quorum.**

 A "quorum" is a legal term for the minimum number of persons necessary to accomplish a valid vote.

Except as these By-Laws or the Charter otherwise provide, the presence of Voting Delegates representing a majority of the total votes in the Association shall constitute a quorum at all Association meetings; provided, until such time as Voting Delegates are selected in accordance with Section 2.7, the presence of Owner Members representing at least 25% of the total votes in the Association shall constitute a quorum at all Association meetings.

**2.10. Conduct of Meetings.**

The President or a Board-approved designee shall preside over all Association meetings. The Secretary shall ensure that minutes of the meetings are kept and that all resolutions adopted and all other transactions occurring at such meetings are kept with the Association's books.

**2.11. Action Without a Meeting.**

Any action required or permitted by law or the Governing Documents to be taken at a meeting of the Members or Voting Delegates may be taken without a meeting, without prior notice, and without a vote if Members or Voting Delegates representing at least the minimum number of votes in the Association necessary to authorize such action at a meeting, if all Members or Voting Delegates entitled to vote were present and voted, sign a written consent specifically authorizing such action. All such consents shall be signed within 60 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 or Voting Delegates at a meeting.

NOTES AND THOUGHTS



## Chapter 3

### Board of Directors: Selection, Meetings, Powers

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#### A. Composition and Selection.

##### 3.1. Governing Body; Qualifications.

The Board shall govern the Association's affairs. Each director shall have one vote. Except with respect to directors appointed by the Founder Member, directors shall be Owners 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 Verrado.

If an Owner is not an individual, any officer, director, partner, member, or any trust officer of such Owner shall be eligible to serve as a director unless a written notice to the Association signed by the Owner specifies otherwise. However, no Owner may have more than one such representative on the Board at a time except in the case of directors the Founder Member appoints.

##### 3.2. Number of Directors.

The Board shall consist of 3 to 7 directors, as provided in Section 3.3.

##### 3.3. Selection of Directors; Term of Office.

(a) *Initial Board.* The initial Board shall consist of the three directors identified in the Articles of Incorporation, who shall serve until their successors are appointed or elected as provided in this Section.

(b) *Directors During Founder Control Period.* Except as otherwise provided in this subsection, the Founder Member may appoint, remove, and replace Board members

until termination of the Founder Control Period. During the Founder Control Period, the Voting Delegates shall be entitled to elect a minority of the total number of directors according to the following schedule (directors elected by the Voting Delegates are referred to as "Owner Directors"):

(i) Within 30 days after the time that Owners other than Builders own 25% of the Units permitted by the Master Plan or whenever the Founder Member earlier determines, the President shall call for an election by which the Voting Delegates shall be entitled to elect one of the three directors, who shall be elected at large. The remaining directors shall be appointees of the Founder Member. The Owner Director shall be elected for a term of two years or until the happening of the event described in subsection (b)(ii) below, whichever is shorter. If such director's term expires prior to the happening of the event described in subsection (b)(ii), a successor shall be elected for a like term.

(ii) Within 30 days after the time that Owners other than Builders own 50% of the Units permitted by the Master Plan or whenever the Founder Member earlier determines, the Board shall be increased to five directors and the President shall call for an election by which the Voting Delegates shall be entitled to elect two of the five directors, who shall be elected at large. The Founder Member shall appoint the remaining three directors. The Owner Directors shall be elected for a term of two years or until the happening of the event described in subsection (c)(i) below, whichever is shorter. If such directors' terms expire prior to the happening of the event described in

subsection (c)(i) below, successors shall be elected for a like term.

*(c) Directors After the Founder Control Period.*

(i) Within 90 days after termination of the Founder Control Period, the President shall call for an election by which the Voting Delegates shall be entitled to elect three of the five directors, who shall be elected at large. The Founder Member shall appoint the remaining two directors. The Owner Directors shall serve until the first annual meeting following the termination of the Founder Control Period. If such annual meeting is scheduled to occur within 90 days after termination of the Founder Control Period, this subsection shall not apply and directors shall be elected in accordance with subsection (c)(ii) below.

(ii) Not later than the first annual meeting after the termination of the Founder Control Period, the Board shall be increased to seven directors. The President shall call for an election by which the Voting Delegates shall be entitled to elect six directors, with an equal number of Owner Directors elected by the Voting Delegates representing each Election District and any remaining

Owner Director slots filled at large by the vote of all Voting Delegates. 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.

(iii) So long as there is a Founder Member, the Founder Member shall be entitled to appoint, remove, and replace the seventh director. Thereafter, the director appointed by the Founder 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 Voting Delegates shall be entitled to elect a director to fill such position. Such director shall be elected for a term of two years.

(iv) Upon expiration of the term of office of each Owner Director, the Voting Delegates entitled to elect such director shall be entitled to elect a successor to serve a term of two years. Owner Directors shall hold office until their respective successors have been elected. Directors may serve any number of consecutive terms.

The following diagram illustrates the concept of transition of control of the Board during and after the Founder Control Period.

TRANSITION OF CONTROL OF BOARD OF DIRECTORS					
Initial Board	25% of Anticipated Units Conveyed	50% of Anticipated Units Conveyed	90 Days After Termination of Founder Control Period	1st Annual Meeting After Termination of Founder Control Period	Termination of Founder membership
Founder	Owner	Owner	Owner	Owner	Owner
Founder	Founder	Owner	Owner	Owner	Owner
Founder	Founder	Founder	Owner	Owner	Owner
		Founder	Founder	Owner	Owner
		Founder	Founder	Owner	Owner
				Owner	Owner
				Founder	Owner

(d) *Election Districts.*

Election Districts may be created, as provided in this Section, for the purpose of balancing varying interests within the Village through grouping members with similar interests based upon Unit ownership for the election of Board members.

The Voting Delegates representing the Neighborhoods within each Election District shall vote on a separate slate of candidates for election to the Board. Each Election District is entitled to elect the number of directors specified in this Chapter.

Acting alone, the Founder shall establish Election Districts, if at all, not later than the date the Founder Control Period expires by filing with the Association and recording a Supplement identifying each Election District by legal description or other means such that the Units within each Election District can be determined easily.

After expiration of the Founder Control Period, the Board, with the approval of Voting Delegates representing a majority of the Neighborhoods and a majority of the total votes in the Association, may create one or more Election Districts, or change existing Election Districts, by recording a Supplement or amending a prior Supplement.

Recording or amending a Supplement to create or change Election Districts shall not be an amendment to the Charter or the By-Laws, and no consent or approval of any Person shall be required except as stated in this Section. Until Election Districts are established, the Village shall be a single Election District. After Election Districts are established, all portions of the Village not assigned to a specific Election District shall constitute a single Election District.

**3.4. Nomination and Election Procedures.**

(a) *Nomination of Candidates.* At least 30 days prior to any election of directors by

the Voting Delegates, the Board shall appoint a Nominating Committee consisting of a chairman, who shall be a Board member, and three or more Owners or representatives of Owners. The Nominating Committee shall serve a term of one year or until its successors are appointed. The names of the Nominating Committee members shall be announced in the notice of each election.

In preparation for each election, the Nominating Committee shall meet and make as many nominations for election to the Board as it shall in its discretion determine, but in no event less than the number of positions to be filled by the Voting Delegates at such election. The Nominating Committee shall nominate separate slates for the directors, if any, to be elected at large by all Voting Delegates, and for the director(s) to be elected by the Voting Delegates within each Election District. In making its nominations, the Nominating Committee shall use reasonable efforts to nominate candidates representing the diversity which exists within the pool of potential candidates. In pursuing diversity in nominations, the Nominating Committee shall focus on finding and nominating candidates with varied backgrounds, interests in the Village, and experiences. Nominations shall also be permitted from the floor at the meeting at which any election is held. All candidates shall have a reasonable opportunity to communicate their qualifications to the members and to solicit votes.

(b) *Election Procedures.* At each election, voting may be by written ballot or may be accomplished via computer. Each Voting Delegate may cast all votes assigned to the Units it represents for each position to be filled from any slate of candidates on which such Voting Delegate is entitled to vote; however, under no circumstances shall cu-

mulative voting be permitted in any election of Directors.

In the event of a tie vote on any slate, the Voting Delegates entitled to vote on such slate shall be informed of the tie vote and given the opportunity to discuss the candidates among themselves in an effort to resolve the tie before another vote is taken. If the second vote again results in a tie, then the Board shall call for election of the director(s) from such slate by the Owners represented by such Voting Delegates. Such election shall be held by mail, with ballots to be sent by first class mail to each Owner Member entitled to vote on such slate within 10 days after the meeting at which the original election was held.

### **3.5. Removal of Directors and Vacancies.**

Voting Delegates holding a majority of the votes entitled to be cast for the election of such director may remove any Owner Director with or without cause. Any director whose removal is sought shall be given notice prior to any meeting called for that purpose. Upon removal of a Director the Voting Delegates entitled to elect the removed director shall elect a successor for the remainder of the term of such director.

At any meeting at which a quorum is present, a majority of the directors may remove any Owner Director who has three consecutive unexcused absences from Board meetings, or who is more than 30 days delinquent (or resides in a Unit owned by a member who is so delinquent) in the payment of any assessment or other charge due the Association. The Board may appoint a successor to fill the vacancy for the remainder of the term.



Owner Directors who have three consecutive unexcused absences from Board meetings or owe money to the Association for more than 30 days can be removed from the Board. This provision helps to ensure that the Directors fulfill their duties to the Association.

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

Any director whom the Board appoints shall be selected from among eligible Owners or residents of Units within the Election District represented by the director who vacated the position.

This Section shall not apply to directors the Founder Member appoints. The Founder Member shall appoint a successor to fill any vacancy on the Board resulting from the death, disability, or resignation of a director appointed by the Founder Member.

## **B. Meetings.**

### **3.6. Organizational Meetings.**

The Board may hold an organizational meeting following each annual Association meeting at such time and place as the Board may fix.

### **3.7. Regular Meetings.**

The Board shall hold regular meetings at such time and place as a majority of the directors shall determine, but the Board shall meet at least four times during each fiscal year with at least one meeting per quarter.

### **3.8. Special Meetings.**

The Board shall hold special meetings when called by written notice signed by the President, Vice President, or any two directors.

### **3.9. Notice; Waiver of Notice.**

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 Board shall notify each director of meetings 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, electronic mail, or other electronic communication device, with confirmation of transmission. All such notices shall be given at or sent to the director's telephone number, fax number, electronic mail address, or sent to the director's address as shown on the Association's records. The Board shall deposit notices sent by first class mail into a United States mailbox at least five business days before the day of the meeting. The Board shall give notices by personal delivery, telephone, facsimile, electronic mail or other device at least 72 hours before the time set for the meeting.

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 meet-

ing without protesting before or at its commencement about the lack of adequate notice.

### 3.10. Telephonic Participation in Meetings.

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

### 3.11. 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 Arizona law, these By-Laws, or the Charter specifically provide otherwise. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the departure of directors, if at least a majority of the required quorum for that meeting approves any action taken. If the Board cannot hold a meeting because a quorum is not present, a majority of the directors present may adjourn the meeting to a time not less than five nor more than 30 days from the date of the original meeting. At the reconvened meeting, if a quorum is present the Board may transact, without further notice, any business it might have transacted at the original meeting.

### 3.12. Conduct of Meetings.

The President or any designee the Board approves by resolution shall preside over all Board meetings. The Secretary shall ensure

that minutes of the meetings are kept and that all resolutions and all transactions occurring at such meetings are included in the Association's records.

### 3.13. Open Meetings; Executive Session.

 Board meetings must be open to all Association members except when sensitive topics that could affect the Association's rights are being discussed.

(a) Subject to the provisions of subsection 3.13(b) and Section 3.14 and applicable Arizona law, all Board meetings shall be open to all Members, but only directors may participate in any discussion or deliberation unless otherwise expressly authorized to do so by a vote of a majority of a quorum of the Board. In such case, the President may limit the time any such individual may speak.

(b) Notwithstanding the above, the President may adjourn any Board meeting and reconvene in executive session, and may exclude persons other than directors, for consideration of one or more of the following topics, or as otherwise provided by Arizona law:

(i) legal advice from an attorney for the Board or the Association (on final resolution of any matter for which the Board received legal advice or that concerned pending or contemplated litigation, the Board may disclose information about that matter in an open meeting except for matters that are required to remain confidential by the terms of a settlement agreement or judgment);

(ii) pending or contemplated litigation;

(iii) personal, health and financial information about an individual Member of

the Association, an individual employee of the Association or an individual employee of a contractor for the Association; and/or

(iv) matters relating to the job performance of, compensation of, health records of or specific complaints against an individual employee of the Association or an individual employee of a contractor of the Association who works under the direction of the Association.

### **3.14. Action Without a Formal Meeting.**

Any action to be taken or which may be taken at a Board meeting may be taken without a meeting if all of the directors sign a written consent, setting forth the action so taken. Such consent shall have the same force and effect as a unanimous vote. The Board shall post or otherwise provide notice of the Board's action in a prominent place within Verrado within three business days after obtaining all written consents to an action. Failure to give notice shall not render the action taken invalid.

## **C. Powers and Duties.**

### **3.15. Powers.**

The Board shall have the power to administer the Association's affairs, perform the Association's responsibilities, and exercise the Association's rights as set forth in the Governing Documents and as provided by law. The Board may do or cause to be done on the Association's behalf all acts and things except those which the Governing Documents or Arizona law require to be done and exercised exclusively by the Voting Delegates or the membership generally.

### **3.16. Duties.**

The Board's duties shall include, without limitation:

(a) preparing and adopting, in accordance with the Charter, an annual budget establishing each Owner's share of the Common Expenses and any Service Area Expenses;

(b) cooperating with the Assembly in levying and collecting 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 and in accordance with the Covenant for Community for Verrado;

(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 the Association's behalf in a bank depository which it shall approve and using such funds to operate the Association; however, in the Board's business judgment any reserve funds may be deposited in depositories other than banks;

(f) making and amending Rules in accordance with the Charter;

(g) opening bank accounts on the Association's behalf 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 Governing Documents;

(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; however, the Association's obligation in this regard shall be conditioned in the manner provided in the Charter;

(j) obtaining and carrying property and liability insurance and fidelity bonds, as provided in the Charter, paying the cost thereof, and filing and adjusting claims, as appropriate;

(k) paying the cost of all services rendered to the Association;

(l) keeping a detailed accounting 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 9.4;

(n) permitting utility suppliers to use portions of the Common Area reasonably necessary to the ongoing development or operation of the Village; and

(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 or permitted by Arizona law, the Articles, and these By-Laws.

(p) assisting in the resolution of disputes between Owners and others without litigation, as set forth in the Charter;

(q) cooperating with the Assembly in carrying out its purposes and responsibilities under the Covenant for Community for Verrado and the by-laws of the Assembly; and

(r) cooperating with the Assembly in upholding the Community-Wide Standard.

### 3.17. Committees.

(a) *General.* In addition to the Transition Committee appointed pursuant to Chapter 4, the Board may appoint such other 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.

(b) *Covenants Committee.* In addition to any other committees that the Board may establish pursuant to Section 3.17(a), the Board may appoint a Covenants Committee consisting of at least three and no more than seven Owners who shall not be officers, directors, or employees of the Association, or the spouse, parent, sibling, or child of any officer, director, or employee. Acting in accordance with the provisions of the Charter, 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 to be held pursuant to Chapter 8. The Covenants Committee shall have no responsibility for seeking out violations of the Governing Documents.

(c) *Service Area Committees.* The Owners within any Service Area that has no formal organizational structure of an association may elect a Service Area Committee to determine the nature and extent of services, if any, which it desires to have the Association provide to the Service Area, over and above those services that the Association provides to all Units in Verrado. A



Service Area Committee, if elected, shall consist of three Owners of Units in the Service Area; however, if approved by the vote of at least 51% of the Owners of Units within the Service Area, the number may be increased to five.

Service Area Committee members shall be elected for a term of one year or until their successors are elected. Any director elected to the Board from a Service Area shall be an *ex officio* member of the Service Area Committee. The members of the Service Area Committee shall elect a chairperson from among themselves, who shall pre-

side at its meetings and shall be responsible for transmitting any and all communications to the Board.

In the conduct of its duties and responsibilities, each Service Area Committee shall abide by the notice and quorum requirements applicable to the Board under Sections 3.9, 3.10, and 3.11. Meetings of a Service Area Committee shall be open to all Owners of Units in the Service Area and their representatives. Members of a Service Area Committee may act by unanimous written consent in lieu of a meeting.

## NOTES AND THOUGHTS

## Chapter 4

# Transition from Founder Member Control to Owner Member Control of Verrado

### 4.1. Purpose.

The time during which Owners assume control and responsibility of the Association is known as the "Transition Period." The Transition Period is a process whereby control of the Board gradually shifts from the Founder Member to Owners and the Owners carry out the responsibilities and functions of the Association as set forth in the Charter and these By-Laws. During this process, the Owners, drawing from their experience, education, and training in governance, begin to perform the duties of the Board which are outlined in these By-Laws without the assistance of the Founder Member or the Founder Member-appointed directors.

This Chapter is intended to guide the Founder, Owners, and the Board through the transition process; prepare Owners to take control of the Board; encourage direct dialogue among all parties to anticipate and resolve maintenance and operation issues; and promote community-wide participation and understanding of the transition process.

### 4.2. Transition Committee.

The Board shall appoint a three to five member "Transition Committee" at least six months prior to the termination of the Founder Control Period. The Transition Committee shall be comprised of a majority of Owner representatives, who shall be selected from the existing Voting Delegates at the time the Transition Committee is appointed, and, at a minimum, one Founder representative. Within three months from the date of its formation, the Transition Committee shall recommend a transition agreement to the Board.

(a) *Transition Agreement.* The Transition Committee shall include in the transition agreement (i) a five-year financial plan, or alternatively, a one-year financial plan with five-year rollover projections, an evaluation of the physical portions of the Village, and a recommendation of which areas are in need of service, repair, or replacement; (ii) an agreement as to which parties are responsible for rendering such service, repair, or replacement and a time line for completing such activities; (iii) a list of all existing contracts and an agreement as to which contracts will be continued; (iv) an agreement as to future Founder rights and obligations, if any; and (v) any other issue affecting the operation of the Association or the maintenance of the Village.

The Transition Committee shall work in good faith to develop a transition agreement for execution by the Founder and the Association. Once agreed upon by a majority of Transition Committee members, the transition agreement shall be recommended to the Board for its approval and execution. If a transition agreement is not reached, the Transition Committee shall inform the Board in writing the reasons why it was unable to finalize a transition agreement.

The following suggestions are listed to guide the Transition Committee in developing a transition agreement:

(i) Inspect all physical structures, recreational areas, and improvements in the Area of Common Responsibility to evaluate their condition and prepare or update the capital improvement plan;

(ii) Place all Common Area utility services (electric, water, gas, telephone, cable, internet/intranet) in the Association's name;

(iii) Update the Association's corporate book, record books, and accounts. A record of all receipts, payments, and expenditures made on the Association's behalf must be maintained;

(iv) Evaluate the Association's Governing Documents to ensure that the Association has the necessary power, authority, and infrastructure to operate the Village;

(v) Conclude any pending legal, document, or Association matters, such as deeding any remaining Common Area to the Association, addressing all covenant enforcement issues, and taking any assessment collection action;

(vi) Review insurance policies to ensure adequate coverage is being maintained;

(vii) Review property management agreements to develop recommendations on post-developer management of the Common Area and facilities;

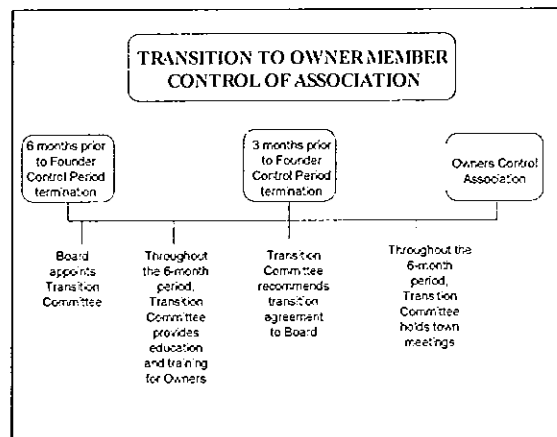
(viii) Conduct a financial review of the Association's current budget, assessment rate, reserve accounts, and tax filings and records; and

(ix) Review the Association's real and personal property interests, deeds, and warranties.

(b) *Transition Period Education and Training Opportunities.* During the Transition Period, the Transition Committee's vision of transition and strategy for developing

a transition agreement should be explained to Owners and the Owners should be prepared to assume control of the Association. Both objectives may be accomplished by teaching Owners about what transition of control means, what to expect during and after the Transition Period, and how to participate in the process.

During the Transition Period, the Transition Committee shall provide or provide for education and training opportunities for Owners, focused on the subject of transition. Education or training opportunities shall be held within six months prior to the election during which the Owners elect the entire Board. Additionally, the Board shall conduct training for the Transition Committee within the first two months of its appointment to assist the Transition Committee in accomplishing its tasks. The Board may retain, as a Common Expense, industry professionals, which may include property managers, attorneys, and accountants, as appropriate or necessary for such purpose.



(c) *Transition Period Notices.* Once formed, the Transition Committee shall keep the Founder Member and the Owners informed of the transition process, including the Transition Committee's agenda, a timeline for creating a transition agreement, and

a schedule of transition education, training opportunities, and town hall meetings.

**4.3. Town Hall Meetings.**

The Transition Committee and the Board shall organize and conduct "town hall" meetings during the Transition Period. Such meetings shall be held for the purpose of promoting open communication among the Transition Committee, the Board, and the

Owners. In addition, town hall meetings provide a forum where transition-related issues can be discussed and Owners have an opportunity to ask questions in order to understand better the transition process. For the purposes of preparing the town hall meeting agenda, the Transition Committee may solicit transition related questions from Owners prior to such meetings.

NOTES AND THOUGHTS

## Chapter 5

### Officers

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*You cannot be a leader, and ask other people to follow you, unless you know how to follow, too.*  
*Sam Rayburn*

#### 5.1. Officers.

The Association's Officers shall be a President, Vice President, Secretary, and Treasurer. The President and Secretary shall be elected from among the 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 Assistant Treasurers, as it shall deem desirable, such officers to have such authority and perform such duties as the Board prescribes. Any two or more offices may be held by the same person. As and when may be determined appropriate by the Assembly, the Board shall also appoint one or more representatives to serve on the Assembly's board of trustees as may be provided in the Assembly's by-laws or otherwise specified by the board of trustees.

#### 5.2. Election and Term of Office.

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

#### 5.3. Removal and Vacancies.

The Board may remove any officer whenever, in its judgment, the Association's

best interests 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.

#### 5.4. Powers and Duties.

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

#### 5.5. Resignation.

Any officer may resign at any time by giving written notice to the Association, in care of either the Board, the President, or the Secretary. Such resignation shall take effect on the date of the delivery of such notice or at a later time specified therein. Unless the resignation specifies, acceptance of such resignation shall not be necessary to make it effective.

## Chapter 6

# Standards of Conduct; Liability and Indemnification

*Hold yourself responsible for a higher standard than anybody expects of you. Never excuse yourself.*

*Henry Ward Beecher*

### 6.1. Standards for Directors and Officers.

The Board shall exercise its powers in a reasonable, fair, nondiscriminatory manner and shall adhere to the procedures established in the Governing Documents.

In performing their duties, directors and officers shall act as fiduciaries and shall be insulated from liability as provided for directors of corporations under Arizona law and as otherwise provided by the Governing Documents. Directors and officers shall discharge their duties as directors or officers, and as members of any committee to which they are appointed, in a manner that the director or officer believes in good faith to be in the best interest of the corporation and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. A director is entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, others prepare or present to the extent authorized under Arizona law.

### 6.2. Liability.

(a) A director shall not be personally liable to the Association, any Member, or any other Person for any action taken or not taken as a director if the director has acted in accordance with Section 6.1.

(b) A director also shall not be personally liable for any action taken or not taken as a director if the director:

(i) acts within the expressed or implied scope of the Governing Documents and his or her actions are not *ultra vires*;


(ii) affirmatively undertakes to make decisions which the director reasonably believes are necessary for the Association's continued and successful operation and, when decisions are made, makes them on an informed basis;

(iii) acts on a disinterested basis, promptly disclosing any real or potential conflict of interests (pecuniary or other), and avoids participation in decisions and actions on matters as to which he has a conflict of interest (beyond that which all directors have by virtue of their ownership or occupancy of a Unit); and

(iv) acts in a non-fraudulent manner and without reckless indifference to the Association's affairs.

(c) The Association's officers, directors, and committee members shall not be liable for any mistake of judgment, negligence or otherwise, except for their own individual willful misfeasance, malfeasance, misconduct, or bad faith. The officers and directors shall have no personal liability with respect to any contract or other commitment made or action taken in good faith on the Association's behalf (except to the extent that such officers or directors may also be Members).

### 6.3. Indemnification.

 Indemnification is the practice in which corporations pay the expenses of officers or directors who are named as defendants in litigation where the litigation is related to the corporation's affairs.

Subject to the limitations of Arizona law, the Association shall indemnify, hold harmless, and defend every officer, director, and committee member for, from, and against all damages and expenses, including counsel fees and expenses, reasonably incurred in connection with any action, suit, or other proceeding (including settlement of any suit or proceeding, if approved by the then Board) to which he or she may be a party by reason of being or having been an officer, director, or committee member, except that the Association shall have no obligation to indemnify any individual against liability or expenses incurred in connection with a proceeding:

(a) brought by or in the right of the Association, although it may reimburse the individual for reasonable expenses incurred in connection with the proceeding if it is determined, by the court or in the manner provided above, that the individual met the relevant standard of conduct under Arizona law; or

(b) to the extent that the individual is adjudged liable for conduct that constitutes:

(i) appropriation, in violation of his or her duties, of any business opportunity of the Association;

(ii) intentional misconduct or knowing violation of the law;

(iii) an unlawful distribution to members, directors, or officers; or

(iv) receipt of an improper personal benefit.

This right to indemnification shall not be exclusive of any other rights to which any present or former officer, director, or committee member may be entitled. The Association shall, as a Common Expense, maintain adequate general liability and officers' and directors' liability insurance to fund this obligation, if such insurance is reasonably available.

### 6.4. Conflicts of Interest; Code of Ethics.

*We are what we repeatedly do. Excellence, therefore, is not an act but a habit. Aristotle*

Unless otherwise approved by a majority of the other directors, no Owner Director may transact business with the Association or any Association contractor during his or her term as director or within two years after the term expires. A director shall promptly disclose in writing to the Board any actual or potential conflict of interest affecting the director 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 above, directors the Founder appoints may be employed by or otherwise transact business with the Founder or its affiliate, and the Founder may transact business with the Association or its contractors.

The initial Board may create and adopt a written "Code of Ethics" applicable to all directors, officers, and committee members. The Code of Ethics, if adopted, shall incorporate the above standards and other conduct rules it deems appropriate. At a mini-

mum, the Code of Ethics shall require each officer and director to conduct himself or herself in a manner consistent with the Board Standards described in Section 6.1. Each officer and director, as a pre-condition to service, shall acknowledge and agree, in writing, to abide by any such Code of Ethics.



Generally, a conflict of interest refers to a clash between the Association's interest and a director's or officer's personal interest which could cause the Association's interest to be disregarded in favor of the director's interest.

#### **6.5. Advancement of Expenses.**

In accordance with the procedures and subject to the conditions and limitations set forth in Arizona law, the Board may authorize the Association to advance funds to pay for or reimburse the reasonable expenses incurred by a present or former officer, director, or committee member in any proceeding to which he or she may be a party by reason of being or having been an officer, director, or committee member of the Association.

#### **6.6. 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 Arizona 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 the Village's governance, operations, and concerns. The Board shall conduct or provide for training and information classes designed to educate Voting Delegates and Owners of the nomination, election, and voting processes and the duties and responsibilities of directors and officers, as provided in Section 3.4.

### NOTES AND THOUGHTS



## Chapter 7

### Management and Accounting

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#### 7.1. Compensation of Directors and Officers.

The Association shall not compensate directors and officers for acting as such unless Voting Delegates representing a majority of the total votes in the Association approve such compensation at an Association meeting. The Association may reimburse any director or officer for expenses he or she incurs on the Association's behalf upon approval of a majority of the other directors. Nothing herein shall prohibit the Association from compensating a director or officer, or any entity with which a director or officer is affiliated, for services or supplies he or she furnishes to the Association in a capacity other than as a director or officer pursuant to a contract or agreement with the Association. However, such director must make known his or her interest to the Board prior to entering into such contract, and a majority of the Board, excluding any interested director, must approve such contract.

#### 7.2. Right of Founder Member to Disapprove Actions.

So long as there is a Founder Member, the Founder Member shall have a right to disapprove any action, policy, or program of the Association, the Board and any committee which, in the Founder Member's sole judgment, would tend to impair rights of the Founder or Builders under the Charter or these By-Laws, interfere with development or construction of any portion of Verrado, or diminish the level of services the Association provides.

(a) *Notice.* The Association shall give the Founder Member written notice of all meetings and proposed actions approved at

Association, Board, or committee meetings (or by written consent in lieu of a meeting). The Association shall give such notice by certified mail, return receipt requested, or by personal delivery at the address the Founder Member has registered with the Association, which notice complies as to Board meetings with Section 3.9, and which notice shall, except in the case of regular Board meetings pursuant to these By-Laws, set forth with reasonable particularity the agenda to be followed at such meeting.

(b) *Opportunity to be Heard.* At any such meeting, the Association shall give the Founder Member the opportunity 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 Founder Member's right of disapproval set forth herein.

The Board shall not implement any action, policy, or program subject to the Founder Member's right of disapproval set forth herein until and unless the requirements of this Section have been met.

The Founder Member, its representatives, or its agents shall make its concerns, thoughts, and suggestions known to the Board and/or the members of the subject committee. The Founder 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.

The Founder Member may use this right to disapprove to block proposed actions but shall not use it to require any action or counteraction of any committee, the Board, or the Association. The Founder Member shall not use its right to disapprove to reduce the level of services the Association is obligated to provide or to prevent capital repairs or any expenditure required to comply with applicable laws and regulations.

### **7.3. Managing Agent.**

The Board shall employ the Community Operations Manager as the Association's professional management agent 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 ultimate responsibility for those duties set forth in Section 3.16. The Board may employ the Founder or its affiliate as managing agent or manager.

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

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

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, other than any compensation received for serving as the Community Operations Manager. Any thing of value received by the managing agent shall benefit the Association. The managing agent shall promptly disclose to the Board any financial or other interest which it may have in any firm providing goods or services to the Association.

### **7.4. Accounts and Reports.**

(a) The Board shall follow the following accounting standards unless the Board by resolution specifically determines otherwise:

(i) accounting and controls should conform to generally accepted accounting principles; and

(ii) the Association's cash accounts shall not be commingled with any other accounts.

(b) 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;

(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 (any assessment or installment thereof shall be considered to be delinquent on the 15th day following the due date unless the Board specifies otherwise by resolution).

(c) An annual report consisting of at least the following shall be made available for members' review within 180 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.

#### **7.5. Borrowing.**

The Association shall have the power to borrow money for any legal purpose. However, the Board shall obtain Voting Delegate approval in the same manner provided in the Charter 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 20% of the Association's budgeted gross expenses for that fiscal year. During the Founder Control Period, no Mortgage or

lien shall be placed on any portion of the Common Area without the affirmative vote or written consent, or any combination thereof, of Voting Delegates representing at least 51% of the total votes in the Association, in addition to such approval as may be required under Chapter 16 of the Charter.

#### **7.6. 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 Verrado. The consent of the Board shall be required to be obtained for any common management agreement.

#### **7.7. Agreements, Contracts, Deeds, Leases, Checks, Etc.**

All Association agreements, contracts, deeds, leases, checks, and other instruments shall be executed by at least one officer or by such other person or persons as the Board may designate by resolution.

### NOTES AND THOUGHTS

## Chapter 8

### Enforcement Procedures

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The Association shall have the power, as provided in the Charter, to impose sanctions for any violation of the Governing Documents. To the extent specifically required by the Charter, the Board shall comply with the following procedures prior to imposition of sanctions:

#### 8.1. Notice and Response.

The Board or its delegate shall serve the alleged violator with written notice describing (a) the nature of the alleged violation, (b) the proposed sanction to be imposed, (c) the alleged violator shall have 10 days to present a written request for a hearing to the Board or the Covenants Committee, if one has been appointed pursuant to Chapter 3; and (d) a statement that the proposed sanction may be imposed as contained in the notice unless a hearing is requested within 10 days of the notice.

The alleged violator shall respond to the notice of the alleged violation in writing within such 10-day period, regardless of whether the alleged violator is challenging the imposition of the proposed sanction. If the alleged violator cures the alleged violation and notifies the Board in writing within such 10-day period the Board may, but shall not be obligated to, waive the sanction.

Prior to the effectiveness of sanctions imposed pursuant to this Chapter, proof of service of proper notice to the alleged violator shall be placed in the records of the Board or Covenants Committee, as applicable. 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. Such proof shall not

be required, and the notice requirement shall be deemed satisfied, if the alleged violator or its representative requests and appears at the hearing.

#### 8.2. Hearing.

If a hearing is requested within the allotted 10-day period described above, the hearing shall be held before the Covenants Committee, or if one has not been appointed, then before the Board in executive session. The alleged violator shall be afforded a reasonable opportunity to be heard. The minutes of the meetings of the Board or Covenants Committee, as applicable, shall contain a written statement of the results of the hearing (*i.e.*, the facts as presented at the hearing and the Board's or Committee's decision) and the sanction, if any, to be imposed.

If a timely request for a hearing is not made, the sanction stated in the notice shall be imposed; however, the Board or Covenants Committee 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.

**8.3. Appeal.**

Following a hearing before the Covenants Committee, if established, the violator shall have the right to appeal the decision to the Board pursuant to such procedures as the

Board shall adopt. To exercise this right, the violator must deliver a written notice of appeal to the Association's manager, President, or Secretary within 10 days after the hearing before the Covenants Committee.

NOTES AND THOUGHTS

## Chapter 9

### Miscellaneous

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#### 9.1. Fiscal Year.

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

#### 9.2. 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 Arizona law or the Governing Documents.

#### 9.3. Conflicts.

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

#### 9.4. Books and Records.

(a) *Inspection by Members and Mortgagees.* Subject to the provisions of applicable Arizona law, 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 reasonably 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 Verrado 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 the documents requested.

(c) *Inspection by Directors.* Every director shall have the absolute right at any reasonable time to inspect all Association books, records, and documents 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.

#### 9.5. Notices.

(a) *Form of Notice and Method of Delivery.* Except as otherwise provided or authorized in the Charter or these By-Laws or by law, all notices, demands, bills, statements, or other communications under the Charter or these By-Laws shall be in writing and may be delivered in person, by United States mail, by private carrier, or if the intended recipient has given its prior written authorization to use such method of delivery, by facsimile or electronic mail with written confirmation of transmission.

(b) *Delivery Address.* Notices shall be delivered or sent to the intended recipient as follows:

(i) if to a Member or Voting Delegate, at the address, telephone facsimile

number, or e-mail address which the Member or Voting Delegate 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 or Voting Delegate;

(ii) if to the Association, the Board, or a committee of either, at the address, facsimile number, or e-mail address of the principal office of the Association or its managing agent, or at such other address as the Association shall designate by notice in writing to the members pursuant to this Section; or

(iii) if to the Founder, at the Founder's principal address as it appears on the Arizona Corporation Commission's records, or at such other address as the Founder shall designate by notice in writing to the Association pursuant to this Section.

(c) *Effective Date.* Notice sent in accordance with subsections (a) and (b) shall be deemed to have been duly given and effective at the earliest of the following:

(i) when received;

(ii) if sent by United States mail, five days after its deposit with the U.S. Postal Service, correctly addressed, with first class or higher priority postage prepaid;

(iii) if delivered personally or by private carrier, when actually delivered to the address of the intended recipient, as evidenced by the signature of the person at such address who accepts such delivery; or

(iv) if sent by telephone facsimile or electronic mail, upon transmission, as evidenced by a printed confirmation of transmission.

## 9.6. Amendment.

(a) *By Founder.* Prior to termination of the Founder Control Period, the Founder may unilaterally amend these By-Laws. Thereafter, the Founder 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. So long as there is a Founder Member, the Founder Member may unilaterally amend these By-Laws for any other purpose, provided the amendment has no material adverse effect upon the rights of more than 2% of the Owners.

(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 Voting Delegates representing 67% of the total votes in the Association, and the consent of the Founder Member, if such exists. In addition, the approval requirements set forth in Chapter 16 of the Charter 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 their approval in the manner set forth above, unless

a later effective date is specified therein. Any procedural challenge to an amendment must be made within six months of approval, 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 of the Founder's rights or privileges without the written consent of the Founder or the assignee of such right or privilege.



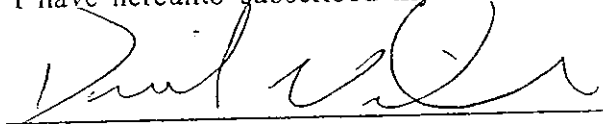
## CERTIFICATION

I, the undersigned, do hereby certify:

That I am the duly elected and acting Secretary of Verrado Community Association, Inc., an Arizona corporation;

That the foregoing By-Laws constitute the amended and restated By-Laws of said Association, as duly adopted by unanimous consent of the Board of Directors on the 9<sup>th</sup> day of April, 2004, which are intended to and do amend and supersede in their entirety the original By-Laws of said Association dated October 9, 2002.

IN WITNESS WHEREOF, I have hereunto subscribed my name as of the 9<sup>th</sup> day of April, 2004.

  
Secretary