

39 ②
M

BY-LAWS
OF
MOUNTAIN SPRINGS RANCH PROPERTY OWNERS ASSOCIATION

TABLE OF CONTENTS

	Page
ARTICLE 1: NAME, PRINCIPAL OFFICE, AND DEFINITIONS	1
1.1 <u>Name</u>	1
1.2 <u>Principal Office</u>	1
1.3 <u>Definitions</u>	1
ARTICLE 2: ASSOCIATION: MEMBERSHIP, MEETINGS, QUORUM, VOTING, PROXIES	1
2.1 <u>Membership</u>	1
2.2 <u>Voting</u>	1
2.3 <u>Neighborhoods</u>	3
2.4 <u>Voting Delegates</u>	3
2.5 <u>Voting Groups</u>	4
2.6 <u>Right of Class "B" Member to Disapprove Actions</u>	5
2.7 <u>Place of Meetings</u>	6
2.8 <u>Annual Meetings</u>	6
2.9 <u>Special Meetings</u>	6
2.10 <u>Notice of Meetings</u>	6
2.11 <u>Waiver of Notice</u>	6
2.12 <u>Adjournment of Meetings</u>	6
2.13 <u>Voting</u>	7
2.14 <u>List for Voting</u>	7
2.15 <u>Proxies</u>	7
2.16 <u>Quorum</u>	7
2.17 <u>Conduct of Meetings</u>	7
2.18 <u>Action Without a Meeting</u>	8
ARTICLE 3: BOARD OF DIRECTORS: NUMBER, POWERS, MEETINGS	8
3.1 <u>Governing Body; Composition</u>	8
3.2 <u>Number of Directors</u>	8
3.3 <u>Directors During Class "B" Control Period</u>	8
3.4 <u>Nomination and Election Procedures</u>	8
3.5 <u>Election and Term of Office</u>	9
3.6 <u>Removal of Directors and Vacancies</u>	10
3.7 <u>Organizational Meetings</u>	10
3.8 <u>Regular Meetings</u>	11
3.9 <u>Special Meetings</u>	11
3.10 <u>Notice</u>	11
3.11 <u>Waiver of Notice</u>	11
3.12 <u>Participation in Meetings</u>	11
3.13 <u>Quorum of Board of Directors</u>	11
3.14 <u>Compensation</u>	12
3.15 <u>Conduct of Meetings</u>	12
3.16 <u>Open Meetings</u>	12
3.17 <u>Action Without a Formal Meeting</u>	12
3.18 <u>Powers</u>	12
3.19 <u>Duties</u>	12
3.20 <u>Management</u>	13

3.21 Accounts and Reports 14

3.22 Borrowing 14

3.23 Right to Contract..... 15

3.24 Enforcement..... 15

ARTICLE 4: OFFICERS 17

4.1 Officers 17

4.2 Election and Term of Office 17

4.3 Removal and Vacancies..... 17

4.4 Powers and Duties..... 17

4.5 Resignation 18

4.6 Agreements, Contracts, Deeds, Leases, Checks, Etc 18

4.7 Compensation 18

ARTICLE 5: COMMITTEES..... 18

5.1 General..... 18

5.2 Architectural Control 18

5.3 Covenants Committee..... 18

5.4 Neighborhood Committees 18

ARTICLE 6: INSURANCE AND CASUALTY LOSSES 19

6.1 Association Insurance..... 19

6.2 Owners' Insurance..... 22

6.3 Limitation of Liability..... 23

ARTICLE 7: BUDGETS AND ASSESSMENTS..... 23

7.1 Computation of General Assessment..... 23

7.2 Computation of Neighborhood Assessments..... 24

7.3 Reserve Budget and Capital Contribution..... 25

7.4 Special Assessments 25

7.5 Specific Assessments..... 25

ARTICLE 8: MISCELLANEOUS 26

8.1 Fiscal Year..... 26

8.2 Parliamentary Rules..... 26

8.3 Conflicts..... 26

8.4 Books and Records..... 26

8.5 Notices 28

8.6 Indemnification..... 29

8.7 Litigation..... 29

8.8 Amendment..... 29

TABLE OF EXHIBITS

<u>Subject Matter</u>	<u>Exhibit</u>
DEFINITIONS.....	Exhibit 1

BY-LAWS
OF
MOUNTAIN SPRINGS RANCH PROPERTY OWNERS ASSOCIATION

ARTICLE 1: NAME, PRINCIPAL OFFICE, AND DEFINITIONS

1.1 Name. The name of the corporation is Mountain Springs Ranch Property Owners Association (the "Association"), a Texas nonprofit corporation.

1.2 Principal Office. The principal office of the Association shall be located in the State of Texas. The Association may have such other offices, either within or outside the State of Texas, as the Board of Directors may determine or as the affairs of the Association 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 Exhibit 1, attached hereto and by this reference incorporated herein, unless the context indicates otherwise.

ARTICLE 2: ASSOCIATION: MEMBERSHIP, MEETINGS, QUORUM, VOTING, PROXIES

2.1 Membership. The Association shall initially have three (3) classes of membership, Class "A", Class "B" and Class "C" as more fully set forth below in Section 2.2.

2.2 Voting.

(a) Class "A". Class "A" Members shall be all Owners except the Class "B" Member and Class "C" Members, if any. Class "A" Members shall have one (1) equal vote for each Lot in which they hold the interest required for membership under the Declaration; provided, however, there shall be only one (1) vote per Lot and no vote shall be exercised for any property which is exempt from assessment. All Class "A" votes shall be cast as provided in subsection (e) below.

(b) Class "B". The sole Class "B" Member shall be the Declarant. The rights of the Class "B" Member, including the right to approve, or withhold approval of, actions proposed under the Declaration, these By-Laws and the Articles, are specified in the relevant sections of the Declaration, these By-Laws and the Articles. The Class "B" Member may appoint a Majority of the Members of the Board of Directors during the Class "B" Control Period which shall continue until the first to occur of the following:

- (i) when ninety percent (90%) of the total number of Lots permitted by the Master Plan for Mountain Springs Ranch have residential dwellings located thereon which have been completed and have been conveyed to Persons other than Declarant;
- (ii) December 31, 2012; or

- (iii) when, in its discretion, the Class "B" Member so determines and voluntarily relinquishes such right in a written instrument executed by Declarant and recorded in the Public Records.

Completion of a dwelling shall be deemed to have occurred upon "substantial completion." For the purposes of this Section, substantial completion shall be defined to be the date that the Declarant or ACC, as appropriate, certifies that the improvements are sufficiently complete in accordance with the Governing Documents and any other building specifications of the appropriate reviewing body as such may be established and amended from time to time and, with respect to initial construction, that the Owner may occupy the improvements for use as a single-family residential dwelling.

After termination of the Class "B" Control Period, the Class "B" Member shall have a right to disapprove actions of the Board and committees as further provided in these By-Laws. The Class "B" membership shall terminate upon the earlier of:

- (i) two (2) years after expiration of the Class "B" Control Period; or
- (ii) when, in its discretion, the Declarant so determines and declares in a written instrument executed by Declarant and recorded in the Public Records.

Upon termination of the Class "B" membership, the Declarant shall be a Class "A" Member entitled to Class "A" votes for each Lot which it owns.

(c) Class "C". Class "C" Members shall be the Commercial Members, if any. Class "C" Members shall have one (1) vote for each Lot in which they hold the interest required for membership under the Declaration; provided, however, a Class "C" Member shall not have the right to use the recreational amenities in Mountain Springs Ranch or to vote on any matters except as specifically set forth in the Declaration governing such member's Lot.

(d) Additional Classes of Membership. The Declarant may, by Supplemental Declaration, create additional classes of membership for the Owners of Lots within any Additional Property made subject to the Declaration or these By-Laws, with such rights, privileges and obligations as may be specified in such Supplemental Declaration, in recognition of the different character and intended use of the property subject to such Supplemental Declaration.

(e) Exercise of Voting Rights by Class "A" Members. Except as otherwise specified in this Declaration or these By-Laws, the vote for each Lot owned by a Class "A" Member shall be exercised by the Voting Delegate representing the Neighborhood of which the Lot is a part, as provided in Section 2.4. The Voting Delegate shall cast all such votes in the manner provided in Section 2.4. No vote shall be exercised on behalf of any Lot if any assessment for such Lot is delinquent.

In any situation where a Class "A" Member is entitled personally to exercise the vote for his or her Lot and there is more than one (1) Owner of such Lot, the vote for such Lot shall be exercised as the co-Owners determine among themselves and advise the secretary of the Association in writing prior to the vote being taken. Absent such advice, the Lot's vote shall be suspended if more than one (1) Person seeks to exercise it.

2.3 Neighborhoods. Every Lot shall be located within a Neighborhood; provided, however, that unless and until additional Neighborhoods are established, the entire Mountain Springs Ranch shall consist of one (1) Neighborhood. The Declarant, in its sole discretion, may establish Neighborhoods within Mountain Springs Ranch by designation on an exhibit to these By-Laws, on a Supplemental Declaration, or on a plat. During the Development Period, the Declarant may unilaterally amend these By-Laws or any Supplemental Declaration from time to time to assign property to a specific Neighborhood, to redesignate Neighborhood boundaries, or to remove property from a specific Neighborhood.

The Owner(s) of a Majority of the total number of Lots within any Neighborhood may at any time petition the Board of Directors to divide the property comprising the Neighborhood into two (2) or more Neighborhoods. Such petition shall be in writing and shall include a survey of the entire parcel which indicates the proposed boundaries of the new Neighborhoods or otherwise identifies the Lots to be included within the proposed Neighborhoods. Such petition shall be deemed granted thirty (30) Days following the filing of all required documents with the Board, unless the Board of Directors denies such application in writing within such thirty (30) Day period. The Board may deny an application only upon determination that there is no reasonable basis for distinguishing between the areas proposed to be divided into separate Neighborhoods. All applications and copies of any denials shall be filed with the books and records of the Association.

The Lots within a particular Neighborhood may be subject to additional covenants and/or the Lot Owners may be members of a Neighborhood Association in addition to the Association. However, a Neighborhood Association shall not be required except as required by law. Any Neighborhood which does not have a Neighborhood Association may, but shall not be obligated to, elect a Neighborhood Committee, as described in these By-Laws, to represent the interests of Owners of Lots in such Neighborhood. During the Development Period, no Neighborhood Association or Neighborhood Committee shall be formed or otherwise established without the prior submission to and written approval by the Declarant of all documents creating or establishing such Neighborhood Association or Neighborhood Committee, including, without limitation, the submission and approval of any declaration of condominium, articles of incorporation, by-laws and other organizational and governing documents.

Any Neighborhood may request that the Association provide a higher level of service or special services for the benefit of Lots in such Neighborhood and, upon the affirmative vote, written consent, or a combination thereof, of Owners of a Majority of the Lots within the Neighborhood, the Association may, in its sole discretion, provide the requested services. The cost of such services, which may include a reasonable administrative charge in such amount as the Board deems appropriate (provided any such administrative charge shall apply at a uniform rate per Lot to all Neighborhoods receiving the same service), shall be assessed against the Lots within such Neighborhood as a Neighborhood Assessment.

2.4 Voting Delegates. Subject to Board determination as set forth herein, the Owners within each Neighborhood shall be entitled to elect a Voting Delegate who shall be responsible for casting all votes attributable to Lots owned by Class "A" Members in the Neighborhood on all Association matters requiring a membership vote, except as otherwise specified in the Declaration or these By-Laws. In addition, each Neighborhood shall be entitled to elect an alternate Voting Delegate who shall be responsible for casting such votes in the absence of the Voting Delegate. No Person shall be eligible to serve as a Voting Delegate or an alternate Voting Delegate if any assessment for such Person's Lot is delinquent. If the Owners within a Neighborhood elect to use a Voting Delegate, the Voting Delegate and alternate Voting Delegate

shall be elected on an annual basis, either by written ballot cast by mail or at a meeting of the Class "A" Members within such Neighborhood, as the Board determines; provided, however, upon written petition signed by Class "A" Members holding at least ten percent (10%) of the votes attributable to Lots within any Neighborhood, the election for such Neighborhood shall be held at a meeting. The presence, in person or by proxy, of Class "A" Members representing at least ten percent (10%) of the total Class "A" votes attributable to Lots in the Neighborhood shall constitute a quorum at any Neighborhood meeting.

The Board, in its sole discretion, shall determine whether Voting Delegates shall be elected for each Neighborhood; provided, however, all Neighborhoods which are similarly situated shall be treated the same. If Voting Delegates will be elected for a Neighborhood, the Board shall send notice of the election to all Owners within the Neighborhood; provided, however, the first election of a Voting Delegate for any Neighborhood shall not be held until at least fifty percent (50%) of the Lots planned for such Neighborhood have been conveyed to Persons other than Declarant.

Subsequent elections within each Neighborhood shall be held annually. Each Class "A" Member who owns a Lot within the Neighborhood shall be entitled to cast one (1) equal vote per Lot owned. 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. The Voting Delegate and the alternate Voting Delegate shall serve a term of one (1) year and until their successors are elected.

Any Voting Delegate or alternate Voting Delegate may be removed, with or without cause, upon the vote or written petition of Owners of a Majority of the total number of Lots owned by Class "A" Members in the Neighborhood which the Voting Delegate or alternate Voting Delegate represents. Any Voting Delegate or alternate Voting Delegate shall be automatically removed and ineligible to cast the votes attributable to Lots in such Voting Delegate's Neighborhood if any assessment for such Voting Delegate's Lot is delinquent. Upon removal of a Voting Delegate or an alternate, a successor shall be elected by the Owners of Lots within the Neighborhood to fill the vacancy for the remainder of such delegate's term.

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 Lots on any issue requiring a vote of the Voting Delegates under this Declaration, the By-Laws, or the Articles.

Prior to taking a vote on any issue requiring membership approval, the Association shall distribute proxies to all Members represented by Voting Delegates allowing each Member to direct in writing how such Member's vote is to be cast with respect to such issue by the Voting Delegate who represents him or her. The Voting Delegates shall be required to cast all votes for which specific proxies are returned in the manner directed in such proxies. All other votes may be cast as the Voting Delegate deems appropriate in its sole discretion. The Board may adopt resolutions establishing additional procedures for polling Members.

2.5 Voting Groups. During the Class "B" Control Period, the Declarant may designate Voting Groups consisting of one (1) or more Neighborhoods for the purpose of electing directors to the Board. The designation of Voting Groups, if any, shall be to promote representation on the Board of Directors for various groups having dissimilar interests and to avoid a situation in which the Voting Delegates representing similar Neighborhoods are able, due to the number of Lots in such Neighborhoods, to elect the entire Board of Directors, excluding

representation of others. Following termination of the Class "B" Control Period, the number of Voting Groups within Mountain Springs Ranch shall not exceed the total number of directors to be elected by the Class "A" Members pursuant to these By-Laws. The Voting Delegates representing the Neighborhoods within each Voting Group shall vote on a separate slate of candidates for election to the Board, with each Voting Group being entitled to elect the number of directors specified in these By-Laws.

The Declarant shall establish Voting Groups, if at all, not later than the date of expiration of the Class "B" Control Period by filing with the Association and in the Public Records a Supplemental Declaration identifying each Voting Group by legal description or other means such that the Lots within each Voting Group can easily be determined. Such designation may be unilaterally amended from time to time by the Declarant during the Development Period.

After expiration of the Declarant's right to amend any designation of Voting Groups as provided above, the Board shall have the right to file or amend any Supplemental Declaration for the purpose of designating Voting Groups. Neither recordation nor amendment of such Supplemental Declaration shall constitute an amendment to a Declaration or these By-Laws, and no consent or approval of any Person shall be required except as stated in this Section. Until such time as Voting Groups are established, all of Mountain Springs Ranch shall constitute a single Voting Group. After a Supplemental Declaration establishing Voting Groups has been filed, any and all portions of Mountain Springs Ranch which are not assigned to a specific Voting Group shall constitute a single Voting Group.

2.6 Right of Class "B" Member to Disapprove Actions. So long as the Class "B" membership exists, the Class "B" Member shall have the 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 the Declarant or Builders under the Declaration or these By-Laws, or interfere with development of, construction on, or marketing of any portion of Mountain Springs Ranch, or diminish the level of services being provided by the Association. This right to disapprove is in addition to, and not in lieu of, any right to approve or disapprove specific actions of the Association, the Board or any committee as may be granted to the Class "B" Member or the Declarant elsewhere.

(a) The Class "B" Member shall be given written notice of all meetings and proposed actions approved at meetings (or by written consent in lieu of a meeting) of the Association, the Board or any committee. Such notice shall be given by certified mail, return receipt requested, or by personal delivery at the address the Class "B" Member has registered with the secretary of the Association, which notice complies with Section 3.10 and which notice shall, except in the case of the regular meetings held pursuant to these By-Laws, set forth in reasonable particularity the agenda to be followed at such meeting.

(b) The Class "B" Member shall be given the opportunity at any such 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. The Class "B" Member, its representatives or agents may make its concerns, thoughts, and suggestions known to the Board and/or the members of the subject committee.

(c) 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) above have been met and the time period set forth in subsection (d) below has expired.

(d) The Class "B" Member, acting through any officer or director, agent or authorized representative, may exercise its right to disapprove at any time within ten (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 ten (10) Days following receipt of written notice of adoption of the proposed action. No action, policy or program shall be effective or implemented if the Class "B" Member exercises its right to disapprove. 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, or the Board or the Association. The Class "B" Member shall not use its right to disapprove to 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.

2.7 Place of Meetings. Meetings of the Association shall be held at the principal office of the Association or at such other suitable place convenient to the Voting Delegates and the Members as the Board may designate, either within Mountain Springs Ranch or as convenient as is possible and practical. Meetings may be held by means of telephone conference, video conference or similar communications equipment, by means of which all persons participating in the meeting can converse with each other. Participation by one of these methods shall constitute presence in person at such meeting.

2.8 Annual Meetings. Meetings shall be of the Voting Delegates. Regular meetings shall be held annually on a date and at a time set by the Board.

2.9 Special Meetings. The president may call special meetings. In addition, it shall be the duty of the president to call a special meeting within thirty (30) Days if so directed by resolution of the Board or upon a petition signed by Voting Delegates representing at least ten percent (10%) of the total Class "A" votes in the Association or upon written request of the Declarant.

2.10 Notice of Meetings. Written notice stating the place, day, and time of any meeting of the Voting Delegates shall be delivered to each Voting Delegate entitled to vote at such meeting, not less than ten (10) nor more than sixty (60) Days before the date of such meeting, 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.

2.11 Waiver of Notice. Waiver of notice of a meeting of the Association shall be deemed the equivalent of proper notice. Any Voting Delegate may, in writing, waive notice of any meeting of the Association, either before or after such meeting. Attendance at a meeting shall be deemed a waiver of any objection as to notice of the time, date, and place thereof, unless a specific objection as to the lack of proper notice is given at the time the meeting is called to order. Attendance at a 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.

2.12 Adjournment of Meetings. If any meeting of the Association cannot be held because a quorum is not present, Voting Delegates representing a Majority of the votes represented at such meeting may adjourn the meeting to a time not less than five (5) nor more

than thirty (30) 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 set by those in attendance at the original meeting or if for any reason a new date is set for reconvening the meeting after adjournment, notice for reconvening the meeting shall be given to Voting Delegates in the manner prescribed in Section 2.10.

2.13 Voting. The voting rights of the Members shall be as set forth in the Declaration and in these By-Laws, and such voting rights provisions are specifically incorporated by this reference. The Board may adopt policies and procedures regarding the methods of casting votes, such as written ballots, secret ballots or computer access.

2.14 List for Voting. After setting a record date for notice of a meeting, the Board shall prepare an alphabetical list of the names of the Voting Delegates entitled to notice of such meeting. The list shall show the address of the Voting Delegate and the number of votes each is entitled to vote at the meeting. The list for voting shall be made available for inspection in accordance with Texas law.

2.15 Proxies. A Voting Delegate entitled to cast the votes for all Lots within such delegate's Neighborhood may not assign the right to cast such votes by proxy, but may cast such votes only in person or through such Voting Delegate's designated alternate. Any Member who is entitled to cast only the vote(s) for such Member's Lot(s) pursuant to this Article may cast such vote in person or by proxy. On any matter as to which a Member is entitled to personally cast the vote for such Member's Lot, such vote may be cast in person (or, if a corporation, partnership, limited liability company, or trust, through any officer, director, partner, member, manager or fiduciary duly authorized to act on behalf of the Member) or by proxy, subject to the limitations of Texas 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 Lot(s) for which it is given, signed by the Member or such Member's duly authorized attorney-in-fact, dated, and filed with the secretary of the Association 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 (2) 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 conveyance of any Lot for which it was given, or upon receipt of notice by the secretary of the death or judicially declared incompetence of a Member who is a natural person, or of written revocation, or eleven (11) months from the date of the proxy, unless a shorter period is specified in the proxy.

2.16 Quorum. Except as may be otherwise provided in these By-Laws or in the Declaration, the presence in person or by proxy of ten percent (10%) of the Class "A" votes entitled to be cast shall constitute a quorum at all meetings of the Association.

If a quorum is present at a duly called or held meeting, business may be continued until adjournment, notwithstanding the withdrawal of Voting Delegates leaving less than a quorum, provided that any action taken is approved by at least a Majority of the votes required to constitute a quorum.

2.17 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.

2.18 Action Without a Meeting. Any action required or permitted by law to be taken at a meeting of the Association may be taken without a meeting, without prior notice and without a vote if written consent specifically authorizing the proposed action is signed by all Voting Delegates entitled to vote on such matter. Such consents shall be signed within sixty (60) Days after receipt of the earliest dated consent, dated and delivered to the Association at its principal place of business in the State of Texas. Such consents shall be filed with the minutes of the Association and shall have the same force and effect as a vote of the Voting Delegates at a meeting. Within ten (10) Days after receiving authorization for any action by written consent, the secretary shall give written notice to all Members summarizing the material features of the authorized action.

ARTICLE 3: BOARD OF DIRECTORS: NUMBER, POWERS, MEETINGS

A. Composition and Selection.

3.1 Governing Body; Composition. The affairs of the Association shall be governed by a Board of Directors, each of whom shall have one (1) equal vote. Except with respect to directors appointed by the Class "B" Member or serving as a representative of the Declarant, the directors shall be eligible Members or residents; provided, however, no Owner and resident representing the same Lot may serve on the Board at the same time. No Owner or resident shall be eligible to serve as a director if any assessment for such Owner's or resident's Lot is delinquent. A "resident" for the purposes of these By-Laws shall mean any natural person eighteen (18) years of age or older whose principal place of residence is a Lot within Mountain Springs Ranch. In the case of a Member which is not a natural person, any officer, director, partner, member, manager, employee, or fiduciary of such Member shall be eligible to serve as a director unless otherwise specified by written notice to the Association signed by such Member; provided, that no Member may have more than one (1) such representative on the Board at a time, except in the case of directors appointed by or serving as representatives of the Class "B" Member or the Declarant.

3.2 Number of Directors. The Board shall consist of three (3) to seven (7) directors, as provided in Section 3.5 below. The initial Board shall consist of three (3) directors appointed by the Class "B" Member as provided in Section 3.3 and shall be increased as provided in Section 3.5. After the termination of the Class "B" membership, the Board may, by resolution, increase or decrease the number of directors.

3.3 Directors During Class "B" Control Period. Subject to the provisions of Section 3.5, the directors shall be selected by the Class "B" Member acting in its sole discretion and shall serve at the pleasure of the Class "B" Member during the Class "B" Control Period. Notwithstanding anything herein or in the Declaration to the contrary, directors appointed by or serving as representatives of the Class "B" Member or the Declarant shall not be subject to the qualifications for directors set forth in Section 3.1 and, further, as representatives of the Class "B" Member, shall be deemed to be Members of the Association for purposes of serving on the Board of Directors, irrespective of whether the individuals appointed by the Class "B" Member are Owners themselves.

3.4 Nomination and Election Procedures.

(a) Nomination of Directors. The Board may establish a nominating committee consisting of a chairperson, who shall be a member of the Board, and three (3) or more Members or representatives of Members. If established, the nominating committee shall be

appointed by the Board not less than thirty (30) Days prior to each election to serve a term of one (1) year or until their successors are appointed, and such appointment shall be announced at the election. A nominating committee shall 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 as provided in Section 3.5 below. 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 votes within each Voting Group. In making its nominations, a nominating committee shall use reasonable efforts to nominate candidates representing the diversity which exists within the pool of potential candidates.

Nominations shall also be permitted from the floor at a meeting of the Association. All candidates shall have a reasonable opportunity to communicate their qualifications to the Members and to solicit votes. Directors appointed by or serving as representatives of the Class "B" Member or the Declarant shall not be subject to these nomination requirements.

(b) Election Procedures. Each Voting Delegate may cast all votes assigned to the Lots which such Voting Delegate represents for each position to be filled from the slate of candidates on which such Voting Delegate is entitled to vote. There shall be no cumulative voting. That number of candidates equal to the number of positions to be filled receiving the greatest number of votes shall be elected. Directors may be elected to serve any number of consecutive terms.

3.5 Election and Term of Office. Notwithstanding any other provision of these By-Laws:

(a) At the first Association meeting occurring after Class "A" Members own twenty-five percent (25%) of the Lots permitted/proposed by the Master Plan for the entire Mountain Springs Ranch or whenever the Class "B" Member earlier determines, the Association shall hold an election at which the Voting Delegates shall be entitled to elect one (1) of the three (3) directors, who shall be an at-large director and shall serve a term of two (2) years or until the occurrence of the event described in subsection (b), whichever is shorter. If such director's term expires prior to the occurrence of the event described in subsection (b), a successor shall be elected for a like term. The remaining two (2) directors shall be appointees of the Class "B" Member.

(b) At the first Association meeting occurring after Class "A" Members own fifty percent (50%) of the Lots permitted/proposed by the Master Plan for the entire Mountain Springs Ranch, or whenever the Class "B" Member earlier determines, the Board shall be increased to five (5) directors. The Association shall hold an election at which the Voting Delegates shall be entitled to elect two (2) of the five (5) directors, who shall serve as at-large directors and shall serve a term of two (2) years or until the occurrence of the event described in subsection (c) below, whichever is shorter. If such directors' terms expire prior to the occurrence of the event described in subsection (c) below, successors shall be elected for a like term. The remaining three (3) directors shall be appointees of the Class "B" Member.

(c) At the first Association meeting occurring after termination of the Class "B" Control Period, the Board shall be increased to seven (7) directors and an election shall be held. Six (6) directors shall be elected by the Voting Delegates. If Voting Groups have been established, one (1) director shall be elected by the Voting Delegates representing each Voting Group and any remaining directorships filled at large by the vote of all Voting Delegates. Three

(3) directors shall serve a term of two (2) years, and three (3) directors shall serve a term of one (1) year, as such directors determine among themselves.

Until termination of the Class "B" membership, the Class "B" Member shall be entitled to appoint, remove and replace one (1) director. Upon termination of the Class "B" membership, the director appointed 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 Voting Delegates shall be entitled to elect a director to fill such position. Such director shall be elected for a term of two (2) years.

Upon the expiration of the term of office of each director elected by the Voting Delegates, the Voting Delegates entitled to elect such director shall elect a successor to serve a term of two (2) years. The directors elected by the Voting Delegates shall hold office until their respective successors have been elected.

3.6 Removal of Directors and Vacancies. Any director elected by the Voting Delegates may be removed, with or without cause, by Voting Delegates representing a Majority of the votes entitled to be cast for the election of such director, but shall not be subject to removal solely by the Class "B" Member. 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 Voting Delegates 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 Voting Delegates who has three (3) or more consecutive unexcused absences from Board meetings, or who is more than thirty (30) Days delinquent (or is the resident of a Lot that is delinquent or is an officer, director, partner, member, employee, or trust officer of a Member who is delinquent) in the payment of any assessment or other charge due the Association, may be removed by a Majority of the directors, and the Board may appoint a successor to fill the vacancy until the next annual meeting, at which time the Voting Delegates entitled to fill such directorship may elect a successor for the remainder of the term.

In the event of the death, disability, or resignation of an elected director or the adoption of a Board resolution increasing the number of directors, 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 may elect a successor for the remainder of the term. Any director that the Board appoints shall be selected from among Members and residents within the Voting Group represented by the director who vacated the position.

This Section shall not apply to directors appointed by the Class "B" Member nor to any director serving as a representative of the Declarant. The Class "B" Member or the 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 the Declarant.

B. Meetings.

3.7 Organizational Meetings. Within thirty (30) Days after the election or appointment of new directors, the Board shall hold an organizational meeting at such time and place as the Board shall set.

3.8 Regular Meetings. Regular meetings of the Board may be held at such time and place as a Majority of the directors shall determine, but at least one (1) such meeting shall be held during each 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 (2) directors.

3.10 Notice. Notice of a regular meeting shall be communicated to directors not less than four (4) Days prior to the meeting. Notice of a special meeting shall be communicated to directors not less than seventy-two (72) hours prior to the meeting. No notice need be given to any director who has signed a waiver of notice or a written consent to holding of the meeting. The notice 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. Notices shall be given to each director by: (a) personal delivery; (b) first class mail, postage prepaid; (c) 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; (d) telecopier transmission to the director's home or office, with confirmation of receipt by the receiving telecopier; (e) telegram, charges prepaid; (f) overnight or same day delivery, charges prepaid; or (g) electronic mail ("e-mail") using Internet accessible equipment and services if the director has consented in writing to such method of delivery and has provided the Board with an e-mail address. All such notices shall be given at the director's telephone or telecopier number or sent to the director's address as shown on the records of the Association. Notices sent by first class mail shall be deemed communicated when deposited into a United States mailbox. Notices given by personal, overnight or courier delivery, telephone, telecopier, telegraph, or e-mail shall be deemed communicated when delivered, telephoned, telecopied, e-mailed, or given to the telegraph company.

3.11 Waiver of Notice. The transactions of any meeting of the Board, 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 (a) a quorum is present, and (b) either before or after the meeting each of the directors 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.

3.12 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 telephone conference, video conference or similar communications equipment, by means of which all persons participating in the meeting can converse with each other. Participation in a meeting pursuant to this Section shall constitute presence in person at such meeting.

3.13 Quorum of Board of Directors. At all meetings of the Board, 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 decision of the Board, 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 meeting of the Board 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 (5) nor more than twenty (20) Days from the date of the original meeting. At the reconvened meeting, if a quorum is present, any business which might have been transacted at the

meeting originally called may be transacted without further notice.

3.14 Compensation. Directors shall not receive any compensation from the Association for acting as such unless approved by Voting Delegates representing a Majority of the total Class "A" votes in the Association at a regular or special meeting of 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 of Directors, excluding the interested director.

3.15 Conduct of Meetings. The president shall preside over all meetings of the Board, and the secretary shall keep a minute book of Board meetings, recording all Board resolutions and all transactions and proceedings occurring at such meetings. In the case of a tie vote on a motion or resolution before the Board, the motion or resolution is considered lost.

3.16 Open Meetings. Subject to the provisions of Sections 3.12 and 3.17, all meetings of the Board shall be open to all Voting Delegates and, if required by law, all Members, but attendees other than directors may not participate in any discussion or deliberation unless permission to speak is requested on an attendee's behalf by a director. In such case, the president may limit the time any individual may speak. Notwithstanding the above, the president may adjourn any meeting of the Board, reconvene in executive session, and exclude Persons other than directors, to discuss matters of a sensitive nature, such as pending or threatened litigation, personnel matters, etc.

3.17 Action Without a Formal Meeting. Any action to be taken at a meeting 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.

3.18 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 Texas law. The Board may do or cause to be done all acts and things which the Governing Documents or Texas law do not direct to be done and exercised exclusively by the Voting Delegates or the membership generally.

3.19 Duties. The duties of the Board shall include, without limitation:

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

(b) levying and collecting such assessments from the Owners;

(c) providing for the operation, care, upkeep, and maintenance of the Area of Common Responsibility;

(d) designating, hiring, and dismissing the personnel necessary to carry out the rights and responsibilities of the Association and where appropriate, providing for the 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 directors' best business judgment, in depositories other than banks;

(f) making and amending rules in accordance with the Declaration;

(g) opening of bank accounts on behalf of the Association and designating the signatories required;

(h) contracting for 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;

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

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

(l) keeping books with detailed accounts of the receipts and expenditures of the Association;

(m) making available to any Owner, and the holders, insurers, and guarantors of any Mortgage on any Lot, current copies of the Governing Documents and all other books, records, and financial statements of the Association as provided in Section 8.4;

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

(o) indemnifying a director, officer or ACC or committee member, or former director, officer or ACC or committee member of the Association to the extent such indemnity is required or permitted under Texas law or the Governing Documents;

(p) assisting in the resolution of disputes between Owners and others without litigation as may be set forth herein and/or in the Declaration; and

(q) constituting, and performing the duties of, the ACC, as set forth in the Declaration.

3.20 Management. The Board may employ for the Association 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 3.19(a), 3.19(b), 3.19(f), 3.19(g) and 3.19(i). The Declarant or an affiliate of the Declarant may be employed as managing agent or manager.

The Board may delegate to one (1) of its members the authority to act on behalf of the Board on all matters relating to the duties of the managing agent or manager, if any, which might arise between meetings of the Board.

3.21 Accounts and Reports. The following management standards of performance shall be followed unless the Board by resolution specifically determines otherwise:

- (a) cash or 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) no remuneration shall be accepted by the managing agent 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; any item of value received shall benefit the Association;
- (e) any financial or other interest which 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 Lot is sold and closed, financial reports shall be prepared for the Association at least quarterly (such financial statements shall include an income statement reflecting all income and expense activity for the preceding period on a cash or accrual basis and may include such other reports as deemed necessary by the Board);
- (g) an annual financial report shall be made available to all Members within one hundred twenty (120) Days after the close of the fiscal year. Such annual report may be prepared on an audited, reviewed or compiled basis, as the Board determines; provided, however, upon written request of any holder, guarantor or insurer of any first Mortgage on a Lot, the Association shall provide an audited financial statement; and
- (h) all financial reports shall be kept at the principal office of the Association for at least three (3) years after the closing of each fiscal year.

3.22 Borrowing. The Association shall have the power to borrow money for any legal purpose; provided, however, 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 twelve (12) month period, exceeds or would exceed ten percent (10%) of the budgeted gross expenses of the Association for that fiscal year, the Board shall obtain the approval of Voting Delegates representing at least sixty-seven percent (67%) of the total votes allocated to Lots prior to borrowing such money.

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 Mountain Springs Ranch; provided, any common management agreement shall require the consent of a Majority of the total number of directors of the Association.

3.24 Enforcement.

(a) Association Authority. The Board, or any committee established by the Board, may impose sanctions for violation of the Governing Documents after compliance with the notice and hearing procedures set forth herein. Such sanctions may include, without limitation:

- (i) imposing monetary fines which shall constitute a lien upon the Lot of the violator. (In the event that any occupant, guest or invitee of a Lot violates the Governing Documents and a fine is imposed, the fine shall first be assessed against the occupant; provided, however, if the fine is not paid by the occupant within the time period set by the Board, the Owner shall pay the fine upon notice from the Board.);
- (ii) filing liens in the Public Records for nonpayment of any assessments or fees;
- (iii) filing notices of violations in the Public Records providing record notice of any violation of the Governing Documents;
- (iv) suspending an Owner's right to vote;
- (v) suspending any Person's right to use any recreational facilities within the Common Area; provided, however, nothing herein shall authorize the Board to limit ingress or egress to or from a Lot;
- (vi) levying Specific Assessments to cover costs incurred in bringing a Lot into compliance;
- (vii) suspending any services provided by the Association to an Owner or the Owner's Lot if the Owner is more than thirty (30) Days delinquent in paying any assessment or other charge owed to the Association; and
- (viii) filing suit to enforce any of the above sanctions; provided, however, compliance with the notice and hearing procedures set forth herein is not required prior to filing suit (1) to collect a General, Neighborhood or Special Assessment, (2) to foreclose the Association's lien for assessments set forth in the Declaration, (3) to obtain a temporary restraining order or temporary injunctive relief, or (4) that includes foreclosure as a cause of action.

- (ix) In the event that any occupant, guest or invitee of a Lot violates the Governing Documents, the Board or any committee established by the Board, with the Board's approval, may sanction such occupant, guest or invitee and/or the Owner of the Lot that the violator is occupying or visiting.
- (x) In addition, the Board, or the covenants committee if established, may elect to enforce any provision of the Governing Documents by entering the Lot and exercising self-help (specifically including, but not limited to, the towing of vehicles that are in violation of parking rules, the removal of pets that are in violation of pet rules or the correction of any maintenance, construction or other violation of the Governing Documents) or by suit at law or in equity to enjoin any violation or to foreclose a lien or both without the necessity of compliance with the procedures set forth in these By-Laws.
- (xi) All remedies set forth in the Declaration and/or these By-Laws shall be cumulative of any remedies available at law or in equity. In any action to enforce the provisions of the Governing Documents, if the Association prevails, it shall be entitled to recover all costs, including, without limitation, attorneys' fees and court costs, reasonably incurred in such action.
- (xii) The Association shall not be obligated to take action to enforce any covenant, restriction, or rule which the Board in the exercise of its business judgment determines is, or is likely to be construed as, inconsistent with applicable law, or in any case in which the Board reasonably determines that the Association's position is not strong enough to justify taking enforcement action. Any such determination shall not be construed a waiver of the right of the Association to enforce such provision under any circumstances or prevent the Association from enforcing any other covenant, restriction or rule.
- (xiii) The Association, by contract or other agreement, may enforce county, city, state and federal ordinances, if applicable, and permit local and other governments to enforce ordinances in Mountain Springs Ranch for the benefit of the Association and its Members.

(b) Notice. Prior to imposition of any sanction requiring compliance with these procedures, the Board or its delegate shall serve the alleged violator with written notice sent by certified mail, return receipt requested, including (i) the nature of the alleged violation; (ii) the proposed sanction to be imposed; (iii) a statement that the alleged violator may present a written request for a hearing to the Board, or to the covenants committee, if one has been appointed pursuant to Article 5, within thirty (30) Days of the notice; (iv) a statement that the hearing, if held before the covenants committee, may be appealed to the Board as set forth herein; and (v) a statement that the proposed sanction shall be imposed as contained in the notice unless a request for a hearing is received within thirty (30) Days of the notice. If a timely request is not received, the sanction stated in the notice shall be imposed; provided, however, the Board or covenants

committee may, but shall not be obligated to, suspend any proposed sanction if the violation is cured within the thirty (30) 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. In the event of a continuing violation, each day the violation continues beyond the thirty (30) Day period shall constitute a separate offense, and fines may be imposed on a per diem basis without further notice to the violator. In the event of a violation which recurs within six (6) months from the date of any notice hereunder, the Board or covenants committee may impose a sanction without further notice to the violator.

(c) Hearing. If a hearing is requested within the allotted thirty (30) Day period, the hearing shall be held before the covenants committee, or, if none has been appointed, then before the Board in executive session, within thirty (30) Days after the Board or its delegate receives the written request. 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 delegate 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. The Board may adopt a schedule of sanctions for violations of the Governing Documents.

(d) Appeal. If a hearing is held before a covenants committee, the violator shall have the right to appeal the committee's decision to the Board. To exercise this right, a written notice of appeal must be received by the manager, president, or secretary of the Association within ten (10) Days after the hearing date.

ARTICLE 4: OFFICERS

4.1 Officers. The officers of the Association shall be a president, secretary, and treasurer. The president and secretary shall be elected from among the members of the Board; other officers may, but need not, be members of the Board. The Board may appoint such other officers, including one or more assistant secretaries and one (1) or more assistant treasurers, as it shall deem desirable, such officers to have such authority and perform such duties as the Board prescribes. Any two (2) or more offices may be held by the same person, except the offices of president and secretary.

4.2 Election and Term of Office. The Board shall elect the officers of the Association at the first meeting of the Board following each election of new directors. Such officers shall 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 officers of the Association 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 of Directors. The president shall be the chief executive officer of the Association. The treasurer shall have primary responsibility for the preparation of the budget and may delegate all or part of the preparation and notification duties to a finance committee, management agent, or both. The secretary shall be responsible for

preparing minutes of meetings of the Association and the Board and for authenticating records of the Association.

4.5 Resignation. Any officer may resign at any time by giving written notice to the Board of Directors, 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, the acceptance of such resignation shall not be necessary to make it effective.

4.6 Agreements, Contracts, Deeds, Leases, Checks, Etc. All agreements, contracts, deeds, leases, checks, and other instruments of the Association shall be executed by at least two (2) officers or by such other person or persons as may be designated by Board resolution.

4.7 Compensation. Compensation of officers shall be subject to the same limitations as compensation of directors under Section 3.14.

ARTICLE 5: 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. Unless otherwise provided by the Board, committee members shall be eligible Members or residents; provided however, no Class "A" Member may have more than one (1) representative on a committee at any time. No committee appointed by the Board shall be empowered to take any affirmative action nor to bind the Board or the Association without the consent of the Board.

5.2 Architectural Control. After the Class "B" Control Period, the full Board shall constitute the elected members of the ACC, unless the Board delegates said authority to a committee composed of three (3) or more Members.

5.3 Covenants Committee. In addition to any other committees which the Board may establish pursuant to the Declaration, these By-Laws and, specifically, Section 5.1, the Board may appoint a covenants committee consisting of at least three (3) and no more than seven (7) 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.

5.4 Neighborhood Committees. In addition to any other committees appointed as provided above, each Neighborhood which has no formal organizational structure or association may elect a Neighborhood Committee to determine the nature and extent of services, if any, to be provided to the Neighborhood by the Association in addition to those provided to all Members of the Association. A Neighborhood Committee may advise the Board on any other issue, but shall not have the authority to bind the Board or the Association. Such Neighborhood Committees, if elected, shall consist of three (3) to five (5) Members, as determined by the vote of at least a Majority of the Owners of Lots within the Neighborhood.

Neighborhood Committee members shall be elected for a term of one (1) year or until their successors are elected. Any director elected to the Board of Directors from a Neighborhood shall be an ex officio member of the Neighborhood Committee. The Neighborhood Committee shall elect a chairperson who shall preside 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 Neighborhood Committee shall abide by the meeting, notice and quorum requirements applicable to the Board under Sections 3.8, 3.9, 3.10, 3.11, and 3.13. Meetings of a Neighborhood Committee shall be open to all Owners of Lots in the Neighborhood and their representatives; provided, however, a Neighborhood Committee may act by unanimous written consent in lieu of a meeting.

ARTICLE 6: INSURANCE AND CASUALTY LOSSES

6.1 Association Insurance.

(a) Required Coverages. The Association, acting through its Board or its duly authorized agent, shall obtain and continue in effect such types of insurance as required by Texas law, including the following types of insurance, if reasonably available, or if not reasonably available, the most nearly equivalent coverages as are reasonably available.

- (i) Blanket property insurance covering "risks of direct physical loss" on a "special form" basis (or comparable coverage by whatever name denominated) for all insurable improvements on the Common Area, if any, and on other portions of the Area of Common Responsibility to the extent that it has assumed responsibility for maintenance, repair and/or replacement in the event of a casualty. If such coverage is not generally available at reasonable cost, then "broad form" coverage may be substituted. The Association shall have the authority to and interest in insuring any property for which it has maintenance or repair responsibility, regardless of ownership. All property insurance policies obtained by the Association shall have policy limits sufficient to cover the full replacement cost of the insured improvements;
- (ii) Commercial general liability insurance on the Area of Common Responsibility, insuring the Association and its Members for damage or injury caused by the negligence of the Association or any of its Members, employees, agents, or contractors while acting on its behalf. If generally available at reasonable cost, the commercial general liability coverage (including primary and any umbrella coverage) shall have a limit of at least one million dollars (\$1,000,000.00) per occurrence and two million dollars (\$2,000,000.00) in the aggregate with respect to bodily injury, personal injury, and property damage, provided should additional coverage and higher limits be available at reasonable cost which a reasonably prudent person would obtain, the Association shall obtain such additional coverages or limits;
- (iii) Workers compensation insurance and employers liability insurance, if and to the extent required by law;
- (iv) Directors and officers liability coverage;
- (v) Fidelity insurance covering all Persons responsible for handling Association funds in an amount determined in the Board's best

business judgment but not less than an amount equal to one-sixth (1/6th) of the annual General Assessments on all Lots plus reserves on hand. Fidelity insurance policies shall contain a waiver of all defenses based upon the exclusion of Persons serving without compensation; and

- (vi) Such additional insurance as the Board, in its best business judgment, determines advisable, which may include, without limitation, flood insurance.

In the event that any portion of the Common Area is or shall become located in an area identified by the Federal Emergency Management Agency ("FEMA") as an area having special flood hazards, a "blanket" policy of flood insurance on the Common Area must be maintained in the amount of one hundred percent (100%) of current "replacement cost" of all affected improvements and other insured property or the maximum limit of coverage available, whichever is less.

In addition, the Association may obtain and maintain property insurance on the insurable improvements within any Neighborhood in such amounts and with such coverages as the Owners in such Neighborhood may agree upon pursuant to Section 2.3. Any such policies shall provide for a certificate of insurance to be furnished to the Neighborhood Association and to the Owner of each Lot insured upon request.

Premiums for all insurance on the Area of Common Responsibility shall be Common Expenses and shall be included in the General Assessment, except that (i) premiums for property insurance obtained on behalf of a Neighborhood shall be charged to the Owners of Lots within the benefitted Neighborhood as a Neighborhood Assessment; and (ii) premiums for insurance on Exclusive Common Areas may be included in the Neighborhood Assessment of the Neighborhood(s) benefitted unless the Board of Directors reasonably determines that other treatment of the premiums is more appropriate. In the event of an insured loss, the deductible shall be treated as a Common Expense or a Neighborhood Expense and assessed in the same manner as the premiums for the applicable insurance coverage. However, if the Board reasonably determines, after notice and an opportunity to be heard in accordance with these By-Laws, that the loss is the result of the negligence or willful misconduct of one (1) or more Owners, their guests, invitees, or lessees, then the Board may charge the full amount of such deductible against such Owner(s) and their Lots as a Specific Assessment.

The Association shall have no insurance responsibility for any portion of the Private Amenities.

(b) Policy Requirements. The Association shall arrange for periodic reviews of the sufficiency of insurance coverage by one (1) or more qualified Persons, at least one (1) of whom must be familiar with insurable replacement costs in the Comal County and/or San Antonio, Texas metropolitan area.

All Association policies shall provide for a certificate of insurance to be furnished to the Association, and to each Member upon request. The policies may contain a reasonable deductible and the amount thereof shall not be subtracted from the face amount of the policy in determining whether the policy limits satisfy the requirements of Section 6.1(a).

All insurance coverage obtained by the Board shall:

- (i) be written with a company authorized to do business in the State of Texas which satisfies the requirements of the Federal National Mortgage Association, or such other secondary mortgage market agencies or federal agencies as the Board deems appropriate;
- (ii) be written in the name of the Association as trustee for the benefitted parties. Policies on the Common Areas shall be for the benefit of the Association and its Members. Policies secured on behalf of a Neighborhood shall be for the benefit of the Owners of Lots within the Neighborhood and their Mortgagees, as their interests may appear;
- (iii) not be brought into contribution with insurance purchased by Owners, occupants, or their Mortgagees individually;
- (iv) contain an inflation guard endorsement;
- (v) include an agreed amount endorsement, if the policy contains a co-insurance clause; and
- (vi) include an endorsement requiring at least thirty (30) Days prior written notice to the Association of any cancellation, substantial modification, or non-renewal.

In addition, the Board shall use reasonable efforts to secure insurance policies which list the Owners as additional insureds and provide:

- (i) a waiver of subrogation as to any claims against the Association's Board, officers, employees, and its manager, the Owners and their tenants, servants, agents, and guests;
- (ii) a waiver of the insurer's rights to repair and reconstruct instead of paying cash;
- (iii) an endorsement precluding cancellation, invalidation, suspension, or non-renewal by the insurer on account of any one (1) or more individual Owners, or on account of any curable defect or violation without prior written demand to the Association to cure the defect or violation and allowance of a reasonable time to cure;
- (iv) an endorsement excluding Owners' individual policies from consideration under any "other insurance" clause;
- (v) a cross liability provision; and
- (vi) a provision vesting the Board with the exclusive authority to adjust losses; provided, however, no Mortgagee having an

interest in such losses may be prohibited from participating in the settlement negotiations, if any, related to the loss.

(c) Damage and Destruction. In the event of any insured loss, only the Board or its duly authorized agent may file and adjust insurance claims and obtain reliable and detailed estimates of the cost of repair or reconstruction. Repair or reconstruction, as used in this subsection, means repairing or restoring the property to substantially the condition in which it existed prior to the damage, allowing for changes or improvements necessitated by changes in applicable building codes.

Any damage to or destruction of the Common Area shall be repaired or reconstructed unless the Voting Delegates representing at least sixty-seven percent (67%) of the total Class "A" votes in the Association, and, during the Development Period, the Declarant, decide within sixty (60) Days after the loss not to repair or reconstruct.

If either the insurance proceeds or reliable and detailed estimates of the cost of repair or reconstruction, or both, are not available to the Association within such sixty (60) Day period, then the period shall be extended until such funds or information are available. However, such extension shall not exceed sixty (60) additional Days. No Mortgagee shall have the right to participate in the determination of whether the damage or destruction to the Common Area shall be repaired or reconstructed.

If determined in the manner described above that the damage or destruction to the Common Area shall not be repaired or reconstructed and no alternative improvements are authorized, the affected property shall be cleared of all debris and ruins and thereafter shall be maintained by the Association in a neat and attractive, landscaped condition consistent with the Community-Wide Standard.

Any insurance proceeds remaining after paying the costs of repair or reconstruction, or after such settlement as is necessary and appropriate, shall be retained by and for the benefit of the Association or the Neighborhood, as appropriate, and placed in a capital improvements account. This is a covenant for the benefit of Mortgagees and may be enforced by the Mortgagee of any affected Lot.

If insurance proceeds are insufficient to cover the costs of repair or reconstruction, the Board of Directors may, without a vote of the Voting Delegates, levy Special Assessments to cover the shortfall against those Owners responsible for the premiums for the applicable insurance coverage under Section 6.1(a).

6.2 Owners' Insurance. By virtue of taking title to a Lot, each Owner covenants and agrees with all other Owners and with the Association to carry property insurance for the full replacement cost of all insurable improvements on his or her Lot, less a reasonable deductible, unless either the Neighborhood Association (if any) for the Neighborhood in which the Lot is located or the Association carries such insurance (which they may, but are not obligated to do hereunder). If the Association assumes responsibility for obtaining any insurance coverage on behalf of Owners, the premiums for such insurance shall be levied as a Specific Assessment against the benefitted Lot and the Owner thereof.

Each Owner further covenants and agrees that in the event of damage to or destruction of structures on or comprising his or her Lot, the Owner shall proceed promptly to repair or to reconstruct in a manner consistent with the original construction or such other plans and

specifications as are approved in accordance with the architectural control provisions of the Declaration. Alternatively, the Owner shall clear the Lot of all debris and ruins and maintain the Lot in a neat and attractive, landscaped condition consistent with the Community-Wide Standard. The Owner shall pay any costs which are not covered by insurance proceeds.

The requirements of this Section shall also apply to any Neighborhood Association that owns common property within the Neighborhood in the same manner as if the Neighborhood Association were an Owner and the common property were a Lot. Additional recorded covenants applicable to any Neighborhood may establish more stringent requirements for insurance and more stringent standards for rebuilding or reconstructing structures on the Lots within such Neighborhood and for clearing and maintaining the Lots in the event the structures are not rebuilt or reconstructed

6.3 Limitation of Liability. Notwithstanding the duty of the Association to maintain and repair portions of the Common Area, neither the Association, its Board of Directors, nor any respective officer, director, committee member, employee, agent, contractor (including the management company, if any) of any of the same shall be liable to any Member or the Member's immediate household for any injury or damage sustained in the Area of Common Responsibility, the Common Area or other area maintained by the Association, or for any injury or damage caused by the negligence or misconduct of any Members or their family members, guests, invitees, agents, servants, contractors or lessees, whether such loss occurs in the Common Area or in individual Lots.

Each Owner, by virtue of the acceptance of title to his or her Lot, and each other Person having an interest in or right to use any portion of Mountain Springs Ranch, by virtue of accepting such interest or right to use, shall be bound by this Section and shall be deemed to have automatically waived any and all rights, claims, demands, and causes of action against the Association arising from or connected with any matter for which the liability of the Association has been disclaimed under this Section.

ARTICLE 7: BUDGETS AND ASSESSMENTS

7.1 Computation of General Assessment. At least thirty (30) Days before the beginning of each fiscal year, the Board shall adopt a budget covering the estimated Common Expenses during the coming year, which may include a capital contribution to establish a reserve fund in accordance with a budget separately prepared as provided in Section 7.3.

General Assessments shall be levied equally against all Lots subject to assessment and shall be proposed by the Board to be set at a level which is reasonably expected to produce total income for the Association equal to the total budgeted Common Expenses, including reserves. In determining the total funds to be generated through the levy of General Assessments, the Board, in its discretion, may consider other sources of funds available to the Association, including any surplus from prior years and any assessment income expected to be generated from any additional Lots reasonably anticipated to become subject to assessment during the fiscal year and any income expected to be generated from any Cost Sharing Agreement.

During the Class "B" Control Period, the Declarant may, but shall not be obligated to, reduce the General Assessment for any fiscal year by payment of a subsidy and/or contributions of services and materials, which may be treated as either a contribution or a loan, in the Declarant's discretion. Any such anticipated payment or contribution by the Declarant shall be disclosed as a line item in the Common Expense budget. Payments by the Declarant in any year

shall under no circumstances obligate the Declarant to continue such payments in future years and the treatment of such payment shall be made known to the membership, unless otherwise provided in a written agreement between the Association and the Declarant.

The Board shall send a copy of the adopted budget and notice of the amount of the General Assessment for the following year to each Owner at least thirty (30) Days prior to the beginning of the fiscal year for which it is to be effective. Such budget and assessment shall become effective without further action of the Owners unless disapproved at a meeting by Voting Delegates representing at least sixty-seven percent (67%) of the total Class "A" votes in the Association and, during the Development Period, by the Declarant; provided, however, after the Class "B" Control Period, if the budget proposes a change in the amount of the General Assessment from the fiscal year immediately preceding the year in which the budget is to be effective, then it must be approved by Voting Delegates representing a Majority of the total Class "A" votes in the Association and, during the Development Period, by the Declarant. Unless approval of the budget by Voting Delegates is required as set forth herein, there shall be no obligation to call a meeting for the purpose of considering the budget except on petition of the Voting Delegates as provided for special meetings in Section 2.9, which petition must be presented to the Board within twenty (20) Days after delivery of the notice of assessments. If such a meeting is requested, assessments pursuant to such proposed budget shall not become effective until after such meeting is held, provided such assessments shall be retroactive to the original effective date of the budget if the budget is not disapproved at such meeting.

If the proposed budget is not approved or is disapproved as required, or the Board fails for any reason to determine the budget for any year, then until such time as a budget is determined, the budget in effect for the immediately preceding year shall continue for the current year. In such event or if the budget proves inadequate for any reason, the Board may prepare a revised budget for the remainder of the fiscal year. The Board shall send a copy of the revised budget to each Owner at least thirty (30) Days prior to its becoming effective. The revised budget shall be subject to the above procedure in order to become effective.

7.2 Computation of Neighborhood Assessments. At least thirty (30) Days before the beginning of each fiscal year, the Board shall adopt a separate budget covering the estimated Neighborhood Expenses for each Neighborhood on whose behalf Neighborhood Expenses are expected to be incurred during the coming year. The Board shall be entitled to set such budget only to the extent that the Declaration, any Supplemental Declaration, or these By-Laws specifically authorizes the Board to assess certain costs as a Neighborhood Assessment. Any Neighborhood may request that additional services or a higher level of services be provided by the Association and, upon approval of Owners in accordance with Section 2.3, any additional costs shall be added to such budget. Such budget may include a contribution establishing a reserve fund for repair and replacement of capital items maintained as a Neighborhood Expense, if any, within the Neighborhood. Neighborhood Expenses shall be allocated equally among all Lots within the Neighborhood(s) benefited thereby and levied as a Neighborhood Assessment.

The Board shall cause a copy of such budget and notice of the amount of the Neighborhood Assessment for the coming year to be delivered to each Owner of a Lot in the Neighborhood at least thirty (30) Days prior to the beginning of the fiscal year for which it is to be effective. Such budget and assessment shall become effective unless disapproved by Owners of a Majority of the Lots in the Neighborhood to which the Neighborhood Assessment applies and, during the Development Period, by the Declarant; provided, however, after the Class "B" Control Period, if the budget proposes a change in the amount of the Neighborhood Assessment from the fiscal year immediately preceding the year in which the budget is to be effective, it must

be approved by Voting Delegates representing a Majority vote of the Owners of Lots in the Neighborhood to which the Neighborhood Assessment applies and, during the Development Period, by the Declarant. Unless approval by Owners is required as set forth herein, there shall be no obligation to call a meeting for the purpose of considering the budget except on petition of Owners of at least ten percent (10%) of the Lots in such Neighborhood. This right to disapprove shall apply only to those line items in the Neighborhood budget which are attributable to services requested by the Neighborhood. If a meeting is requested, assessments pursuant to such proposed budget shall not become effective until after such meeting is held, provided such assessments shall be retroactive to the original effective date of the budget if the budget is not disapproved at such meeting.

If the Owners within any Neighborhood disapprove or fail to approve, as required, any line item of a Neighborhood budget, the Association shall not be obligated to provide the services anticipated to be funded by such line item of the budget. If the Board or Owners fail for any reason to determine a Neighborhood budget for any year, then until such time as a budget is determined, the budget in effect for the immediately preceding year shall continue for the current year.

All amounts which the Association collects as Neighborhood Assessments shall be expended solely for the benefit of the Neighborhood for which they were collected and shall be accounted for separately from the Association's general funds.

7.3 Reserve Budget and Capital Contribution. The Board may annually prepare reserve budgets for both general and Neighborhood purposes which take into account the number and nature of replaceable assets within the Area of Common Responsibility, the expected life of each asset, and the expected repair or replacement cost. If a reserve budget is prepared, the Board shall set the required capital contribution in an amount sufficient to permit meeting the projected needs of the Association, as shown on the budget, with respect both to amount and timing by annual General Assessments or Neighborhood Assessments, as appropriate, over the budget period.

7.4 Special Assessments. In addition to other authorized assessments, the Association may levy Special Assessments from time to time to cover unbudgeted expenses or expenses in excess of those budgeted. Any such Special Assessment may be levied against all Lots, if such Special Assessment is for Common Expenses, or against the Lots within any Neighborhood if such Special Assessment is for Neighborhood Expenses. Special Assessments shall be allocated equally among all Lots subject to such Special Assessment. Any Special Assessment shall become effective unless disapproved at a meeting of Voting Delegates representing at least sixty-seven percent (67%) of the total Class "A" votes allocated to Lots which will be subject to such Special Assessment and by the Declarant during the Development Period. There shall be no obligation to call a meeting for the purpose of considering any Special Assessment except on petition of the Voting Delegates as provided for special meetings in Section 2.9, which petition must be presented to the Board within twenty (20) Days after delivery of the notice of such Special Assessment. Special Assessments shall be payable in such manner and at such times as determined by the Board, and may be payable in installments extending beyond the fiscal year in which the Special Assessment is approved.

7.5 Specific Assessments. The Association shall have the power to levy Specific Assessments against a particular Lot or Lots as follows:

(a) to cover the costs, including overhead and administrative costs, of providing benefits, items, or services to the Lot(s) or occupants thereof upon request of the Owner pursuant to a menu of special services which the Board may from time to time authorize to be offered to Owners and occupants (which might include, without limitation, landscape maintenance, garbage collection and similar services and facilities), which assessments may be levied in advance of the provision of the requested benefit, item or service as a deposit against charges to be incurred by the Owner;

(b) to cover the costs associated with maintenance, repair, replacement and insurance of any Exclusive Common Area assigned to one (1) or more Lots; and

(c) to cover costs incurred in bringing the Lot(s) into compliance with the terms of the Governing Documents or costs incurred as a consequence of the conduct of the Owner or occupants of the Lot, their agents, contractors, employees, licensees, invitees, or guests; provided, however, the Board shall give the Lot Owner prior written notice and an opportunity for a hearing, in accordance with Section 3.24, before levying any Specific Assessment under this subsection (c).

The Association may also levy a Specific Assessment against the Lots within any Neighborhood to reimburse the Association for costs incurred in bringing the Neighborhood into compliance with the provisions of the Declaration, any applicable Supplemental Declaration, the Articles, the By-Laws, and rules; provided, however, the Board shall give prior written notice to the Owners of Lots in, or the Voting Delegate representing, the Neighborhood and an opportunity for such Owners or Voting Delegate to be heard before levying any such assessment.

ARTICLE 8: MISCELLANEOUS

8.1 Fiscal Year. The fiscal year of the Association shall be the calendar year unless the Board establishes a different fiscal year by resolution.

8.2 Parliamentary Rules. Except as may be modified by Board resolution, Robert's Rules of Order Newly Revised (current edition) shall govern the conduct of Association proceedings when not in conflict with Texas law, the Articles of Incorporation, the Declaration, or these By-Laws.

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

8.4 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 Lot, 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 Lot: the Declaration, By-Laws, and Articles of Incorporation, any amendments and supplements to the foregoing, the rules of the Association, and the minutes of meetings of the Members, the Board, and committees. The Board shall provide for such inspection to take place at the office of the Association or at such other place within Mountain Springs Ranch as the Board shall designate during normal business hours.

(b) Delivery of Certain Information to Owner. Within ten (10) Days after receipt of a written request by the Board or its designee from an Owner, the Association shall deliver to the Owner, the Owner's agent, or to a title insurance company or its agent acting on behalf of the Owner, copies of the following, as requested: the Declaration, By-Laws, and Articles of Incorporation, any amendments or supplements to the foregoing, the rules of the Association, and a "resale certificate." A "resale certificate" must contain the following:

- (i) a statement of any right of first refusal or other restraint, if any, contained in the Declaration that restricts the Owner's right to transfer his or her Lot;
- (ii) the frequency and amount of General Assessments and Neighborhood Assessments, if any;
- (iii) the amount of any Special Assessment that is due after the date the resale certificate is prepared;
- (iv) the total of all amounts due and unpaid to the Association that are attributable to the Owner's Lot;
- (v) capital expenditures, if any, approved by the Association for the current fiscal year;
- (vi) the amount of reserves, if any, for capital expenditures;
- (vii) the Association's current operating budget and balance sheet;
- (viii) the total of any unsatisfied judgments against the Association;
- (ix) the style and case number of any pending lawsuit in which the Association is a defendant;
- (x) a copy of a certificate of insurance showing the Association's property and liability insurance relating to the Common Areas and common facilities;
- (xi) a description of any conditions on the Owner's Lot that the Board has actual knowledge are in violation of the Governing Documents;
- (xii) a summary or copy of notices received by the Association from any governmental authority regarding health or housing code violations existing on the preparation date of the resale certificate relating to the Owner's Lot or the Area of Common Responsibility;
- (xiii) the amount of any administrative transfer fee charged by the Association for a change of ownership of a Lot;
- (xiv) the name, mailing address, and telephone number of the Association's managing agent, if any; and

- (xv) a statement indicating that the Governing Documents allow foreclosure of the Association's lien on the Owner's Lot for failure to pay assessments.

The Association may charge a reasonable fee to assemble, copy, and deliver the information required by this subsection 8.4(b) and may charge a reasonable fee to prepare and deliver an update of a resale certificate.

(c) Rules for Inspection. The Board may establish reasonable 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 copies of documents requested.

(d) 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. The right of inspection by a director includes the right to make a copy of relevant documents at the expense of the Association.

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

- (a) if to a Member or Voting Delegate, at the 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 Lot of such Member or Voting Delegate; or
- (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.

If mailed, any notice shall be deemed to be delivered when deposited in the United States mail addressed with postage prepaid. To increase flexibility, any Person, including the Association, may consent to or request in writing additional methods of receiving notice, including but not limited to, facsimile, electronic mail or e-mail.

8.6 Indemnification. The Association shall indemnify every officer, director, ACC member and committee member against all damages, liability, and expenses, including attorneys' fees, reasonably incurred in connection with any action, suit, or other proceeding (including settlement of any suit or proceeding, if approved by the then Board of Directors) to which he or she may be a party by reason of being or having been an officer, director, ACC member or committee member, except that such obligation to indemnify shall be limited to those actions for which liability is limited under this Section, the Articles of Incorporation and Texas law.

The officers, directors, and ACC and other committee members shall not be liable for any mistake of judgment, negligent or otherwise, except for their own individual willful misfeasance, malfeasance, misconduct, or bad faith. The officers, directors and ACC and other committee members shall have no personal liability with respect to any contract or other commitment made or action taken in good faith on behalf of the Association (except to the extent that such officers, directors or ACC or other committee members may also be Members of the Association). The Association shall indemnify and forever hold each such officer, director and ACC and other committee member harmless from any and all liability to others on account of any such contract, commitment or action. This right to indemnification shall not be exclusive of any other rights to which any present or former officer, director, or ACC or other 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.

8.7 Litigation. Except as provided below, no judicial or administrative proceeding shall be commenced or prosecuted by the Association unless approved by a vote of Voting Delegates representing seventy-five percent (75%) of the total Class "A" votes in the Association. A Voting Delegate representing Lots owned by Persons other than himself or herself shall not vote in favor of bringing or prosecuting any such proceeding unless authorized to do so by a vote of the Owners holding seventy-five percent (75%) of the total votes attributable to Lots in the Neighborhood represented by the Voting Delegate. This Section shall not apply, however, to (a) actions brought by the Association to enforce the provisions of this Declaration (including, without limitation, the foreclosure of liens); (b) the imposition and collection of assessments by the Association; (c) proceedings involving challenges to property taxes; (d) counterclaims brought by the Association in proceedings instituted against it; or (e) actions brought by the Association against any contractor, vendor or supplier of goods and services arising out of a contract for services or supplies. This Section shall not be amended unless such amendment is approved by the percentage of votes, and pursuant to the same procedures, necessary to institute proceedings as provided above.

8.8 Amendment.

(a) By Declarant. Until termination of the Class "B" membership, the Declarant may unilaterally amend these By-Laws for any purpose. Thereafter, the Declarant 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, regulation, or judicial determination; (ii) to enable any reputable title insurance company to issue title insurance coverage on the Lots; (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 Lots; or (iv) to satisfy the requirements of any local, state, or federal governmental agency. However, any such amendment shall not adversely affect the title to any Lot unless the Owner shall consent thereto in writing. In addition, during the Development

Period, the Declarant may unilaterally amend these By-Laws for any other purpose, provided the amendment has no material adverse effect upon any right of any Member.

(b) By the Board. The Board shall be authorized to amend these By-Laws without the consent of the Members (i) for the purpose of conforming these By-Laws to any mandatory provisions of the Act or other Texas law, and (ii) to correct scrivener's errors and other mistakes of fact, provided that any amendments under this provision have no material adverse effect on the rights of the Members. During the Development Period, any such amendment shall require the consent of the Declarant.

(c) By Members. 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 sixty-seven percent (67%) of the total Class "A" votes in the Association, and, during the Development Period, the written consent of the Declarant. In addition, any notice requirements to Mortgagees as 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.

(d) Validity and Effective Date. Any amendment to these By-Laws shall become effective upon recordation in the Public Records, unless a later effective date is specified in the amendment. Any procedural challenge to an amendment must be made within six (6) 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 the Declarant or the Class "B" Member without the written consent of the Declarant, the Class "B" Member, or the assignee of such right or privilege.

If a Member consents to any amendment to the Declaration or these By-Laws, it will be conclusively presumed that such Member has the authority to consent and no contrary provision in any Mortgage or contract between the Member and a third party will affect the validity of such amendment.

(e) HUD/VA Approval. As long as there is a Class "B" membership, the U.S. Department of Veterans Affairs, so long as it is guaranteeing the Mortgage on any Lot, or the U.S. Department of Housing and Urban Development, so long as it is insuring the Mortgage on any Lot, shall have the right to disapprove any amendment to these By-Laws.

EXHIBIT 1
DEFINITIONS

1. "ACC": The Architectural Control Committee, as described in the Declaration.
2. "Act": The Texas Residential Property Owners Protection Act, Title 11, Chapter 209 of the Texas Property Code, as such act may be amended.
3. "Additional Property": All of that certain real property which is subject to annexation to the terms of the Declaration.
4. "Area of Common Responsibility": The Common Area, together with those areas, if any, for which the Association has or assumes responsibility pursuant to the terms of the Declaration, any Supplemental Declaration or other applicable covenant, contract, or agreement. The Area of Common Responsibility shall include any real property and improvements which are designated as areas to be maintained by the Association on a recorded subdivision plat for any portion of Mountain Springs Ranch.
5. "Articles of Incorporation" or "Articles": The Articles of Incorporation of Mountain Springs Ranch Property Owners Association, as filed with the Secretary of State of the State of Texas.
6. "Association": Mountain Springs Ranch Property Owners Association, a Texas nonprofit corporation, its successors or assigns.
7. "Board of Directors" or "Board": The body responsible for administration of the Association, selected as provided in the By-Laws and generally serving the same role as the board of directors under Texas corporate law.
8. "Builder": Any Person who purchases one (1) or more Lots for the purpose of constructing improvements for later sale to consumers or purchases one (1) or more parcels of land within Mountain Springs Ranch for further subdivision, development, and/or resale in the ordinary course of such Person's business. Any Person occupying or leasing a Lot for residential purposes shall cease to be considered a Builder with respect to such Lot immediately upon occupancy of the Lot for residential purposes, notwithstanding that such Person originally purchased the Lot for the purpose of constructing improvements for later sale to consumers.
9. "By-Laws": The By-Laws of Mountain Springs Ranch Property Owners Association, as they may be amended.
10. "Class "B" Control Period": The period of time during which the Class "B" Member is entitled to appoint a Majority of the Members of the Board of Directors as provided in Section 2.2.
11. "Commercial Member": The Owner of a Lot which is designated in the Declaration pertaining to such Lot as a Commercial Lot.
12. "Common Area": All real and personal property, including easements and licenses, which the Association owns, leases or holds possessory or use rights in for the common use and

enjoyment of the Owners. The term also shall include the Exclusive Common Area, as defined below.

13. "Common Expenses": The actual and estimated expenses incurred, or anticipated to be incurred, by the Association for the general benefit of all Owners, including any reasonable reserve, as the Board may find necessary and appropriate pursuant to the Governing Documents.

14. "Community-Wide Standard": The standard of conduct, maintenance, or other activity generally prevailing throughout Mountain Springs Ranch. Such standard shall initially be established by the Declarant and may be more specifically determined by the Board of Directors and the ACC.

15. "Cost Sharing Agreement": Any agreement, contract or covenant between the Association and an owner or operator of property adjacent to, in the vicinity of, or within Mountain Springs Ranch, including any Private Amenity, for the allocation of expenses that benefit both the Association and the owner or operator of such property.

16. "Days": Calendar days; provided, however, if the time period by which any action required hereunder must be performed expires on a Saturday, Sunday or legal holiday, then such time period shall be automatically extended to the close of business on the next regular business day.

17. "Declarant": Bluegreen Southwest One, L.P., a Delaware limited partnership, or any successor, successor-in-title, or assign who takes title to any portion of the property in Mountain Springs Ranch for the purpose of development and/or sale and who is designated as the Declarant in a recorded instrument executed by the immediately preceding Declarant; provided, however, there shall be only one Person entitled to exercise the rights and powers of the Declarant hereunder at any one time.

18. "Declaration": Any of certain declarations of covenants, conditions and restrictions; or similar document with another title, pertaining to any portion of Mountain Springs Ranch, which are recorded in the Public Records.

19. "Design Guidelines": The design and construction guidelines and application and review procedures applicable to Mountain Springs Ranch promulgated and administered pursuant to the Declaration.

20. "Development Period": The period of time during which the Declarant owns any property which is subject to a Declaration, or any Private Amenity, or has the unilateral right to subject Additional Property to a Declaration pursuant to the terms thereof.

The Declarant may, but shall not be obligated to, unilaterally relinquish its rights under this Declaration and terminate the Development Period by recording a written instrument in the Public records.

21. "Exclusive Common Area": A portion of the Common Area intended for the exclusive use or primary benefit of one (1) or more, but less than all, Neighborhoods or Lots, as more particularly described in the Declaration.

22. "General Assessments": Assessments and Maintenance Charges levied on all Lots subject to assessment by the Association to fund Common Expenses for the general benefit of all Lots, as more particularly described in the Declaration.

23. "Governing Documents": The Declaration, By-Laws, Articles of Incorporation, all Supplemental Declarations, the Design Guidelines and rules of the Association, all Cost Sharing Agreements and all additional covenants governing any portion of Mountain Springs Ranch or any of the above, as each may be supplemented and amended from time to time.

24. "Lot": A portion of Mountain Springs Ranch, whether improved or unimproved, which may be independently owned and conveyed and which is intended for development, use, and occupancy as an attached or detached single family dwelling or commercial unit. The term shall refer to the land which is part of the Lot as well as any improvements thereon. The term shall include within its meaning, by way of illustration but not limitation, single-family detached houses on separately platted lots, as well as vacant land intended for development as such, but shall not include Common Area, common property owned by any Neighborhood Association, or property dedicated to the public. In the case of a building within a condominium or other structure containing multiple fee-simple dwellings, each dwelling or commercial unit shall be deemed to be a separate Lot.

In the case of a parcel of vacant land or land on which improvements are under construction, the parcel shall be deemed to be a single Lot until such time as a subdivision plat or condominium plat is filed of record on all or a portion of the parcel. Thereafter, the portion encompassed by such plat shall contain the number of Lots determined as set forth in the preceding paragraph and any portion not encompassed by such plat shall continue to be treated in accordance with this paragraph.

25. "Maintenance Charges": General or Neighborhood Assessments levied against Lots, as more particularly described in the Declaration or these By-Laws.

26. "Maintenance Fund": An Association fund into which General or Neighborhood Assessments are deposited, as may be more particularly described in the Declaration.

27. "Majority": Those votes, Owners, Members, or other group, as the context may indicate, totaling more than fifty percent (50%) of the total eligible number.

28. "Master Plan": The land use plan or development plan for Mountain Springs Ranch prepared by Pro-Tech Engineering Group Incorporated, 100 E. San Antonio Street, Suite 100, San Marcos, Texas 78666, as such plan may be amended from time to time. Inclusion of Additional Property on the Master Plan shall not, under any circumstances, obligate Declarant to subject such property to the Declaration or these By-Laws, nor shall the exclusion of any property from the Master Plan bar its later annexation in accordance with the Declaration.

29. "Member": A Person entitled and subject to membership in the Association pursuant to Section 2.2.

30. "Mortgage": A mortgage, a deed of trust, a deed to secure debt, or any other form of security instrument affecting title to any Lot.

31. "Mortgagee": A beneficiary or holder of a Mortgage.

32. "Mountain Springs Ranch": That certain planned community located in Comal County, Texas which is commonly known and referred to as Mountain Springs Ranch.

33. "Neighborhood": A separately developed area within Mountain Springs Ranch, whether or not governed by a Neighborhood Association (as defined below), in which the Owners of Lots may have common interests other than those common to all Members of the Association. For example, and by way of illustration and not limitation, each single-family attached or detached housing development may constitute a separate Neighborhood, or a Neighborhood may be comprised of more than one housing type with other features in common.

Where the context permits or requires, the term Neighborhood shall also refer to the Neighborhood Committee (established in accordance with the By-Laws), if any, or Neighborhood Association (as defined below), if any, having concurrent jurisdiction over the property within the Neighborhood. Neighborhood boundaries may be established and modified as provided in Section 2.3.

34. "Neighborhood Assessments": Assessments and Maintenance Charges levied against the Lots in a particular Neighborhood or Neighborhoods to fund Neighborhood Expenses, as further described in Section 2.3.

35. "Neighborhood Association": Any owners association having concurrent jurisdiction with the Association over any Neighborhood.

36. "Neighborhood Expenses": The actual and estimated expenses incurred or anticipated to be incurred by the Association for the benefit of Owners of Lots within a particular Neighborhood or Neighborhoods, which may include a reasonable reserve for capital repairs and replacements, as the Board may specifically authorize from time to time and as may be authorized herein or in Supplemental Declarations applicable to such Neighborhood(s).

37. "Owner": One (1) or more Persons who hold the record title to any Lot, including the Declarant and any Builder but excluding in all cases any party holding an interest merely as security for the performance of an obligation. If a Lot is sold under a recorded land sales contract, and the contract specifically so provides, the purchaser (rather than the fee owner) will be considered the Owner. If a Lot is owned by more than one (1) Person, all such Persons shall be jointly and severally obligated to perform the responsibilities of such Owner.

38. "Person": A natural person, a corporation, a partnership, a limited liability company, a fiduciary acting on behalf of another person or any other legal entity.

39. "Private Amenity": Certain real property and any improvements and facilities thereon located adjacent to, in the vicinity of, or within Mountain Springs Ranch, designated by the Declarant and which are owned and operated, in whole or in part, by Persons other than the Association for recreational or other purpose. The use of the term "Private Amenity" shall not be construed to imply or require a private club. Private Amenities may be operated on a daily fee, use fee, public, or private basis or otherwise, and may include, any recreational amenities so located and all related and supporting facilities and improvements. Declarant reserves the right to designate additional Private Amenities in its sole discretion.

40. "Public Records": The real property records of Comal County, Texas.

41. "Special Assessments": Special Assessments levied by the Association in accordance with the Declaration.
42. "Specific Assessment": Specific Assessments levied in accordance with the Declaration.
43. "Supplemental Declaration": An instrument filed in the Public Records which subjects additional property to a Declaration, designates Neighborhoods, and/or imposes, expressly or by reference, additional restrictions and obligations on the land described in such instrument.
44. "Voting Delegate": Any representative selected by the Class "A" Members within each Neighborhood to be responsible for casting all Class "A" votes attributable to Lots in the Neighborhood on matters requiring a vote of the membership (except as otherwise specifically provided in the Declaration and in these By-Laws). The term "Voting Delegate" shall also refer to any alternate Voting Delegate acting in the absence of a Voting Delegate and any Owner personally casting the vote for his or her Lot pursuant to Section 2.4.
45. "Voting Group": One (1) or more Voting Delegates who vote on a common slate for election of directors to the Board of Directors of the Association, as more particularly described in Section 2.5 or, if the context so indicates, the group of Class "A" Members whose Lots are represented thereby.

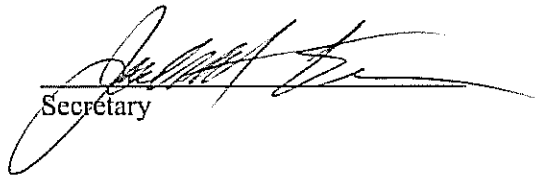
CERTIFICATION

I, the undersigned, do hereby certify:

That I am the duly elected and acting secretary of Mountain Springs Ranch Property Owners Association, a Texas nonprofit corporation;

That the foregoing By-Laws constitute the original By-Laws of the Association, as duly adopted at a meeting of the Board of Directors thereof held on the 19th day of March, 2004.

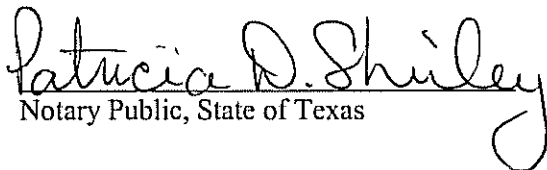
IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Association this 19th day of March, 2004.

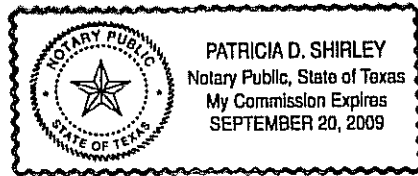

Secretary

STATE OF TEXAS

COUNTY OF HAYS


This instrument was acknowledged before me on the 19th day of March, 2004, by Jack Dean, Vice President of Bluegreen Southwest Land, Inc., general partner of Bluegreen Southwest One, L.P.


Notary Public, State of Texas



↓
Bluegreen SW Land Inc
PO Box 896
Wimberley, TX. 78676

Doc# 200606051884
Pages 39
12/08/2006 2:02PM
Official Records of
COMAL COUNTY
JOY STREATER
COUNTY CLERK
Fees \$168.00

 Joy Streater