

ASSOCIATION RULES FOR OAK TRAIL ESTATES HOMEOWNERS

To provide the homeowners with guidance on some of the more significant items they will encounter, this document describes basic procedures, and supplies background in various areas. The CC&Rs provide the operating ground rules, including authorizations and compliance. Variances from the CC&Rs should be the exception.

1. Fiduciary responsibility of the Board. The Board has a fiduciary responsibility to all OTE property owners and is legally required to enforce the CC&Rs, which enhance property values in OTE. The Board is charged with doing what is required by the CC&Rs in an effective, sensible and economic manner. In essence, the Board's job is to maintain OTE as a high quality residential area.
2. Familiarity of Board with the CC&Rs. Thorough knowledge and understanding of the CC&Rs is a *must*. The restated CC&Rs were adopted and became effective when recorded on 1-30-02.
3. Past history. To become familiar with what has happened in previous years, it is strongly recommended that Board members read the Minutes, Correspondence and Road books. It will be time well spent. Reviewing what issues have been discussed before and why decisions have been made can save endless hours of covering the same ground. Also, since directors are required to make *informed* decisions, these books provide necessary background.
4. Election/selection of President, Vice-President, Secretary, Treasurer and Roads Coordinator. As soon as possible after the annual meeting, a meeting of the Board members should be held to vote on the composition of the Board, preferably with all five Board members present.
5. Frequency of Board meetings. Boards usually meet once a month, with special meetings when required. A listing of proposed agenda items, prepared by the President or Secretary, is helpful, especially if given to each Board member a few days in advance of a meeting. Rotating the monthly meetings at each Board member's residence is suggested.
6. Relationship of the Board with the ARC. Per the CC&Rs, the Board appoints the three members of the ARC. There is no specific term for ARC members, so replacements are generally required only when a member resigns. The ARC is an independent committee that reviews architectural matters. Judgments are required on the appropriateness and acceptability of proposed construction, and easement and setback problems arise periodically. While the committee does have detailed guidelines to work from, its decisions can often be quite difficult and sensitive. The ARC recommends its opinion(s) to the Board, and the Board renders the final decision. To aid in the coordination process, the ARC forwards to the Board a

copy of each architectural review application, and meets with the Board at all meetings.

- 7 Bank accounts; signature cards for those authorized to sign checks. The Association's checking account is presently at the Santa Ynez branch of the Mid-State Bank, and the regular savings account and the road reserve savings account are at Los Padres Bank in Solvang. The Board authorizes three people to sign checks---usually two Directors and the Accountant. Signature cards must be provided to the bank for these persons, and the old cards held by the bank must be destroyed. The incoming Board should take these actions as soon as possible. Two signatures are required on checks---normally, the Accountant originates and signs the check and forwards it to the Treasurer for the second signature. The Board should establish who has the authority to commit the Board on expenditures, and to what limit.
8. Role of the Treasurer. The Treasurer is responsible for all financial actions. The Treasurer should work closely with the Association's Accountant (the firm of Nelson Owens in Santa Ynez), monitoring all expenses and account balances, supervising investments, and making decisions on billing problems, delinquent accounts, etc. When feasible, and to earn higher interest rates, most of the Association's money from the savings accounts is invested in CDs. The Accountant can provide specific advice in this area. Bank balances, checks authorized, and other actions of the Treasurer should be reported to the Board at each meeting, and documentation given to the Secretary for filing. At the beginning of May, it is useful if the Treasurer prepares a brief report on OTE's financial status, to be given at the annual meeting. Every three years the Treasurer must obtain from Michael Gartzke, accountant, a new ten-year plan for the Roads.
9. Role of the Accountant. The Accountant's office performs numerous functions for the Association. It bills homeowners quarterly for regular assessments, and non-member homeowners who use the roads, and sends summaries of its billings to the Board. It collects all payments and deposits them in the appropriate accounts. It maintains our books and prepares our financial statements and income tax forms. It pays bills as required. It supplies typing services if necessary, either on computer disc or in finished form. It acts as intermediary with escrow companies when an OTE property is sold, and sends a welcome package of materials to new homeowners (and sends to the Board a checklist of escrow information and materials sent). Our contact person at the office is Marc Owens. He must send to each new Board Secretary in May copies of the following: these Association Rules and the Architectural Rules and Guidelines. The Secretary must distribute these to the various persons who must have them.
10. Mandatory reports: Budget, Financial Statement, and Audit. The State requires that, 45 to 60 days prior to the end of the fiscal year (Dec. 31), a Budget for the forthcoming year be provided to all OTE homeowners. The CC&Rs also require

that a Financial Statement be provided to each homeowner within 60 days after each fiscal year-end. An independent CPA must accomplish a separate review of the Association's financial position annually. The firm of Michael J. Gartzke of Goleta has done this in recent years.

- 11 Taxes. The Association pays income tax only on income other than that from regular and special assessments. This income comes usually from interest on bank deposits and from the cattle grazing. There are also mandatory franchise taxes. The Accountant prepares and provides tax data to the Board.
12. Duties of the Secretary. The Board Secretary is designated the recorder for the Board, and should:
 - (a) Keep minutes of all meetings. If not in attendance, then be sure someone else takes notes. Minutes should contain: time; date; place; names of those in attendance (quorum is three); approval of past minutes; The Treasurer's report; sufficient detailed description of discussion on each subject referenced by number and referring to any previous discussion; results of any votes or actions taken; descriptions of advisory meetings with Attorney, Accountant, etc.; time and place of next scheduled meeting; and any other detail that might be useful to someone reviewing the actions of the Board.
 - (b) Distribute the minutes to the Board members, preferably soon after the meeting, and to any homeowner who requests a copy.
 - (c) Write any required notes of annual meeting, special meetings, cattle arrival, etc., and coordinate with Accountant to distribute these with the periodic billing where possible. The notice of the annual meeting should include with it a proxy for the vote for new Board members. Also on the proxy should be the mandatory vote on cattle grazing, as well as any other items to be voted on. (Examples of past proxies are in the Correspondence books).
 - (d) Collect and count proxies for the annual and any special meetings.
 - (e) Make sure that any variance granted by the Board or ARC, or any CC&R or Bylaw amendment approved by the membership, meets all legal requirements and is properly recorded with the County, per the CC&Rs.
 - (f) Ensure that copies of all correspondence and other documents are collected and filed in the Correspondence book. It is very important, both for present use and for future reference, to have as much documentation as possible so that it is clear what has transpired. The Minute books, Correspondence books, Road book, maps, and all other official records are to be kept safely in a central location and made available at the reasonable request of any member. Never distribute any original records, only copies. (A copier is provided to the Secretary).
 - (g) Write any correspondence required.
 - (h) Periodically update the list of homeowners' names and addresses and distribute. Periodically update the package of information sent by the

Accountant to each new purchaser. The first updating will be a new list of Board and Committee members in May

- (i) Arrange cattle contract annually at direction of Board. (Blank copies of the contract are in the Correspondence book).

13. Liability insurance; Board of Directors' coverage. Liability insurance is carried jointly by the Water Company and the Homeowners Association and is renewed in June. Since the Water Company has the greater liability exposure, that Board normally gets the policy, and the Homeowners Association contributes its percentage of the cost. The renewal should be monitored to assure it is accomplished. With rates continually increasing, multiple quotes should be solicited. The CC&Rs (and other laws) indicate that individual Board members cannot be held liable in liability cases. It should be noted also that many individual Homeowner's Insurance Policies provide "Director's and Officer's Coverage" for volunteer service on Boards that provide no compensation for that service.
14. Relationship with Water Board. The Water Company is a totally separate entity. However, close coordination between the Boards is recommended. An occasional joint meeting may be appropriate if circumstances warrant. It should be noted that the Water Company's operating ground rules are different than those of the Homeowners Association.
15. Road maintenance and budgeting. The Road Maintenance Reserve Fund supports maintenance of OTE roads, which is the Association's principal expense. Two local firms---MidCo and Granite---have done most of the past repair work. All OTE roads are of very light chip seal, except Woodstock Rd., which is asphalt. Each Board has to determine how much to spend for pothole repair, shoulder work, or resurfacing. Weather and usage determine how often major work is necessary. Past experience indicates a new chip seal layer shouldn't be required more than every three to five years. From time to time, mowing along the shoulders is also needed. The Board should be aware that, if the roads are allowed to deteriorate to a major extent, they could be very costly to replace or resurface.
16. Coordination with Woodstock Ranch Board for work done on Woodstock Rd. Woodstock Ranch is responsible for payment of half the cost of any maintenance work done on Woodstock Rd. (see item 17). Any expense over \$1000 should be discussed with their Board in advance. On completion of the work, they must be billed for their share. Frequently, they have been very slow to pay, so any billing must be monitored to ensure that a check is received.
17. Relationship with Woodstock Ranch Board. The relationship with Woodstock Ranch is covered in a special agreement between our two Associations. (A copy of the agreement is in the Roads book). The only mandatory coordination is that related to maintenance expenses of Woodstock Rd. in the OTE area. (On one

occasion when OTE was faced with a water shortage, the Woodstock Association provided water. There has been a continuing irritant with Woodstock Ranch on their use of our roads other than Woodstock Rd. Some background on this subject may be useful. For some years, before OTE was developed, Woodstock Ranch property owners used Woodstock Rd. as a short cut to their properties. The developers of OTE attempted to stop this usage and a legal battle ensued. In 1976 an agreement between the two associations was signed giving Woodstock Ranch owners an easement to use Woodstock Rd., in exchange for paying half of the maintenance costs. The agreement also states that members of each association can use the others riding and hiking trails. Woodstock Ranch vehicular traffic using Long Canyon, Montecielo, and Hillcrest Roads therefore is not authorized, but is difficult to prevent. To minimize it, a turn lane was eliminated and fencing was erected at the bottom of Hillcrest Rd. The actual vehicle count of this traffic on Hillcrest Rd. (which their cars must use to travel on Long Canyon or Montecielo) has been measured, and is presently quite low.

18. A. Maintenance of road easements. The California Civil Code Sec. 845 deals with the cost of maintaining easements, and pertains to the properties mentioned in B, C, and D following. (A copy of Sec. 845 is in the Roads book). When OTE was formed, the then owners of these properties provided easements to OTE.

B. Relationship with the Hergenrather Association. At the northeast end of OTE, but not a part of it, are six properties that compromise the Hergenrather Association. (At present, three of the properties are owned by Jeff Palmer, and the others by Yunck, H. Logan, and Burnett). They are an independent association, but are not active as such. They use our water system and are shareholders of our Water Company. They are billed quarterly for road maintenance purposes. Their fees were increased January, 2001. Although the lot owners cannot vote in our Association, we welcome their participation where appropriate. (A copy of the Hergenrather CC&Rs is in the Roads book).

C. Relationship with Timothy J. Lenarz. This is another property near the Hergenrather group, not tied to any Association. He also is a shareholder in the Water Company, and has been separately billed an annual fee for road usage in the same way as the Hergenrather group.

D. Relationship with Bogert group. There are four properties on Oak Trail's side of the Long Canyon/Montecielo entrance to OTE, referred to informally as the Bogert group. (The present owners of these properties are Lucinda Dennis, who is also an OTE property owner, Bill Hurst, Joe Olla, and Kenna Gose). They use the roads and are billed for road maintenance.

19. Use of Attorney on OTE matters. On occasion, it is necessary to obtain legal help in matters of the Association. Over the years, the Halme & Clark firm in Solvang has been utilized. The 1989/90 Board has also used attorney Robert Rebstock, who is in Santa Barbara and is not faced with potential conflict-of-interest

problems. He is with the firm of Egenolf Associates LLP and is very knowledgeable on association matters. It is worth checking with the Attorney, perhaps twice a year, for any updates in the Civil Code that pertain to us or even override our CC&Rs (some examples are Sec. 845, dealing with easement maintenance; Sec. 1366(b), which governs assessment limits; and Sec. 1366(c), which covers maximum penalties for late payments).

20. Ground squirrel problem. Ground squirrels are a problem in that they often carry infectious disease, cause hazard to horses and hikers, create erosion (especially at road edges), and often damage oak tree root systems. About May 1 until about July 15, and then around October 1 until the rain starts are the times to apply the anticoagulant bait. The Board will designate the persons to apply the bait. Each such person will become familiar with applicable laws and regulations. These include the Pesticide Safety Information Series A-1 through A-9, N-1 through N-9, and Summary of Selected Laws and Regulations. Annual licenses are obtained through the Santa Barbara Agricultural Commissioners office (contact Steve Loyal at 686-5064). The bait is obtained from the San Luis Obispo Department of Agriculture (Arroyo Grande 473-7090, SLO 781-5910). Monthly reports of usage are required to be made.

Bait should be placed in feeders (PVC tees) where squirrels appear, but not before the ground cover is dead. Place feeders near where squirrel activity is apparent. A feeder will control the area within 30-50 feet of its location. Place feeder in an upright position *firmly* attached to something that will hold that position. In the first application, fill feeders to 60% of capacity. Shake feeder until bait is visible on each end. DO NOT let a great amount of bait fall to the ground. DO NOT put bait directly into squirrel hole. Check the feeders every 3 to 4 days, and fill to 50% capacity if empty. Keep bait in feeder as long as squirrel activity is observed in the area. If bait remains uneaten, relocate feeder to an active area or remove and store until the next abatement period. One of two things could have happened. The squirrels have expired or they have gone into hibernation. To prevent degradation keep bait in a sealed container if being stored for a long period of time.

Bait is an anticoagulant, a poison, and should be kept away from children, pets, domestic animals, fish, birds and other wildlife. Baits should not be exposed to soil surfaces. Wash hands with soap and water after handling and before eating or smoking. Clean clothing should be used daily. Read the instructions on the bait package. Homeowners and other persons who may be affected should be notified prior to the beginning of an application period.

21. Cattle grazing in OTE. The CC&Rs authorize cattle grazing, but require that this issue be put to a vote of the homeowners each year. The grazing brings income, and, more importantly, diminishes the risk of grass fires. A contract must be executed for this. The cattle are brought in when adequate grass appears in the fall/winter, and are taken out when the food supply is gone.

22. Annual meeting; special meetings. The CC&Rs require the annual meeting to be held in May. The meeting must be held at a convenient location (Shepherd of the Valley Church has been used the past few years, with the Treasurer giving the church a \$50.00 donation afterwards). For everyone's convenience, this meeting should be coordinated with the Water Company's annual meeting, since both are held primarily to elect new Board members. Special meetings may be called as needed; the rules governing them are spelled out in the CC&Rs. All meetings require specific prior notice, and, in any request for a vote, pro and con arguments should be included.
23. Voting approval percentages required on changes/proposals. The percentages required by the CC&Rs for homeowner approval of various actions depends on the issue, and are stated there. Some issues require approval of only a simple majority of those voting at a meeting, while others require that of 75% of all owners.
24. Nominations for Board members. Nominations for new Board members occur annually and are voted on at the annual meeting. This means that a full slate of nominees is required well in advance of the meeting so that proxies can be mailed out in sufficient time. A letter in early March soliciting volunteers is a good idea, and ideally will result in a good cross-section of the Association area. To facilitate the transition to a new Board, it is very helpful if at least one Board member carries over from the previous year.
25. Transition to a new Board. It is recommended that the out-going Board pass on to the new Board a list of unresolved items for their attention.
26. Trails Committee. For the many OTE homeowners having horses, the detailed charts indicated in item 27 designate Riding Trails in our area. An informal group of owners has organized an OTE Trails Committee. Their main goal is to ensure that the designated trails are kept clear for riding purposes.
27. County maps showing property outlines and easements. Precise maps of Oak Trail Estates Lot 1 through Lot 63 are on file at the County Recorder in Santa Barbara. Their identification is Tract #11,737, Book 92, pages 36 to 43, inclusive. Additional copies may be secured at that office for a modest charge. A set is part of the package held by the Secretary.

It is recommended that each Board append to this document any new or updated information it feels would be useful to its successors. Any updates must be approved by a majority of the Board and copies sent to all homeowners (pursuant to the CC&Rs.)