

BY-LAWS OF
HAWAIIAN RANCHOS
ROAD MAINTENANCE CORPORATION

ARTICLE I. DEFINITIONS

1.1 "Corporation property" means any real or personal property interest owned, leased, licensed, or other wise held by the Corporation.

1.2 "Developer" means Hawaii Ranchos, Inc., a Hawaii corporation or its successor.

1.3 "Lot" or "Ranchos lot" mean each of the subdivided lots intended for residential or commercial use and not a road lot, designated and shown on the map of the Hawaiian Ocean View Ranchos Subdivision, Increments I, II and III, such maps filed in the Bureau of Conveyances of the State of Hawaii as File Plan Nos. 1125, 1145 and 1183, respectively, located in the District of Ka'u, State and County of Hawaii.

1.4 "Owner" means any person who is the record owner of a fee simple interest in any lot; provided, however, that the lessee, or if there is a sub-original term of more than thirty (30) years, and the purchaser under a recorded agreement of sale or an unrecorded agreement of sale between Title Guaranty Escrow, Inc., as Trustee, and a purchaser, shall be deemed to be the owner of such lot, to the extent provided in such lease or agreement of sale. For purposes of these By-laws, the developer shall be deemed to be the owner of the lots owned by Title Guaranty Escrow Services, Inc., as Trustee, except for those lots which have been sold by unrecorded agreements of sale or otherwise to new owners. In the event of a dispute or conflict between the fee simple owner and any such lessee, sublessee, or purchaser (under a recorded document), as to who shall be the owner for purposes of these By-laws, then such lessee, sublessee or purchaser under a recorded document shall be deemed to be the owner until such dispute or conflict is resolved. Any person who holds any interest in a lot merely as security for the performance of an obligation shall not be deemed an owner. A trustee, personal representative, or receiver shall be deemed an owner of lots held or administered in that capacity.

1.5 "Person" means a natural individual, corporation, partnership, or any other legal entity.

1.6 "Road lots", "Ranchos road lot" or "Ranchos road system" mean those private roads located within the subdivision as certain roadways designated and shown on the map of the Hawaiian Ocean View Ranchos Subdivision, Increments I, II and III, as shown on the maps filed in the bureau of Conveyances of the State of Hawaii as File Plans Nos. 1125, 1145 and 1183, respectively, located in the District of Ka'u, State and County of Hawaii and shall be all roadways located within the above-mentioned subdivision; provided, however, that any portion or portions of the roadways which may be dedicated or conveyed to the County of Hawaii, State of Hawaii, or other governmental authority shall cease to be part of the Ranchos road system immediately upon such dedication or conveyance and the acceptance thereof by said governmental authority.

1.7 "Corporation Board" or "Board" means the Board of Directors of the Corporation. ("Corporation officers" means the officers created under these By-laws being President, Vice-president, Secretary and Treasurer.)

1.8 "Majority of members" means the members owning in the aggregate more than fifty percent (50%) of the lots in the subdivision. Any specified

percentage of the members means members owning the specified percentage of lots of the subdivision.

1.9 "Corporation" means Hawaiian Ranchos Road Maintenance Corporation, a Hawaii nonprofit corporation.

ARTICLE II. MEMBERSHIP

2.1 Membership. Each owner of a lot within the Ranchos Subdivision, by virtue of being such an owner, and for so long as he is an owner, shall be a member of the Corporation.

2.2 Transfer of Membership. Membership in the Corporation is appurtenant to the ownership of an interest in a lot and cannot be granted separately from ownership of a lot. Any attempted assignment, pledge, mortgage, conveyance, or other transferred disposition of membership separately from the interest in a lot shall be void. The transfer of title to a lot shall simultaneously transfer the membership appurtenant to the lot to the grantee, whether or not such transfer is mentioned in the deed. The lot owner and any purchaser of a lot shall do all things necessary to inform and provide evidence to the Road Maintenance Corporation immediately of the change of ownership with the name and address of the new owner. There shall be no fee charged for transfer of ownership.

2.3 Proof of Status. Upon challenge by the Corporation, no person shall exercise the rights of membership in the Corporation until satisfactory proof has been furnished to the Secretary of the Corporation that he is an owner of a lot. Such proof may consist of a copy of a duly executed, acknowledged and recorded deed, an agreement of sale, or a lease for an original term of not less than thirty (30) years, or a title insurance policy, or certificate of title from a licensed abstractor, or as shown by County records, showing the person to be the owner of a lot. Any such deed, agreement, leave, policy or certificate. In the event of a dispute as to ownership, the Corporation shall treat the previously recognized owner as the owner entitled to exercise the rights of membership in the Corporation and all owners shall indemnify and hold the Corporation harmless from any such dispute.

2.4 Record Date. The Board of Directors may fix a time as a record date for the determination of members entitled to notice of any meeting of the members. The record date so fixed shall not be more than sixty (60) days prior to the date of the meeting. When a record date is so fixed, only members of record on that date shall be entitled to notice of the meeting. Proof of ownership of a lot for voting purposes may be made at any time up to and including the time of any vote of the members and proof of ownership as set forth in these By-laws may be attached to any ballot or proxy assigned for the purposes of a vote.

2.5 Voting Rights, Ballots; Proxies. At any meeting of the members of the Corporation, each member shall be entitled to one vote for each lot owned. Votes may be cast in person, by ballot or by proxy. If more than one person holds ownership interest in any lot, the vote for such lot may be exercised by any one of them present at any meeting in the absence of protest by the other co-owner or co-owners, and in the case of protest, each co-owner shall be entitled to only a share of such vote in proportion to its share of ownership in such lot. Cumulative voting is permitted as provided in Section 416-74 Hawaii Revised Statutes, as the same now exists or is hereafter amended.

2.6 Ballot. Each member entitled to vote in accordance with the terms and provisions of these By-laws may vote by written ballot. Votes shall be placed in an envelope plainly marked "ballot" and returned to the League of Women Voters, or some other independent, impartial organization on or before the meeting date. Ballots received after the meeting will not be counted. The

Board shall enclose with the notice of the annual meeting the agenda for such annual meeting or special meeting. Such issues shall include, without limitations, the paving plan, budget, election or removal of directors and officers, and matters to be voted on by the membership. In addition, the Board shall cause to be sent to any owner a ballot upon request by that owner.

2.7 Proxies. Any member may attend and vote at meetings in person, or by a proxy holder duly appointed by a written proxy signed by the member and filed with the Secretary of the Corporation, on or before the date of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution. A proxy shall be deemed revoked when the Secretary shall receive actual notice of cancellation of the proxy from the member or upon the death or judicially declared incompetence of the member, or upon termination of the member's status as an owner, or upon the appearance at the meeting of the member giving the proxy.

2.8 Annual Membership Meetings. There shall be an annual meeting of the members held on such date as the Board may determine, at least sixty (60) days prior to the end of the fiscal year. In the event that the Board fails to establish such date by the 180th day following the commencement of the fiscal year, then the annual meeting for that year shall be held on the third Saturday in the month of October.

2.9 Special Membership Meetings. Special meetings of the members of the Corporation, shall be held at such time and at such place as may be designated by the Board of Directors and for such purposes as shall be specified in a call for any such meeting made by resolution of the Board of Directors or by a writing filed with the Secretary, signed by the President, or by a majority of the directors, or by petition signed by twenty-five (25) or more members of the Corporation.

2.10 Membership Records. The Board of Directors shall do all things necessary to maintain a reasonably up-to-date membership list. Such membership list should accurately reflect changes of ownership within ninety (90) days of any actual change of ownership. All ballots, notices of meetings and assessments notices shall contain a change of ownership form and language notifying the recipient that if the recipient is no longer the owners of a Ranchos lot, he should so notify the Corporation Board and such recipient should forward the notice and agenda to the new owner if known. The Board may adopt such other procedures in its discretion necessary to maintain this updated membership list.

2.11 Notice of Meetings. Except as otherwise required by law, notice of each meeting of the members of the Corporation, specifying the day, time and place of the meeting and the purposes for which the meeting is called, and specifying whether it is an annual or special meeting, shall be given by or under the direction of the Secretary to each member of the Corporation at least forty-five (45) days before the date fixed for such meeting. Such notice shall be in writing and shall be sent to the owner at his residence address or his usual place of business, as it appears on the books of the Corporation, by mail, first class, postage prepaid, addressed to him at such address or electronic transmission, if elected by the member. For those who so select, electronic transmission may be used as notification and any business matters between the Corporation and shareholder. Any shareholder may revoke the use of electronic transmission at any time. If notice is given pursuant to the provisions of these By-laws, non-receipt of the actual notice of any meeting by any member of the Corporation shall in no way invalidate the meeting or any proceedings taken or any business done at the meeting. Any member of the Corporation may waive notice of any meeting either prior to or after the meeting, with the same effect as though notice of the meeting had been given him. The presence of any member of the Corporation at meeting shall be the equivalent of a waiver by him of notice of the meeting. Along with the notice of the meeting the Board shall

cause to be sent to each Owner an agenda of the issues to be decided at such meeting a proxy and a ballot providing a space for the Owner to vote on all such issues as are set forth in the agenda. No issues or votes which are not described in the agenda may be voted on at any membership meeting. In addition to the right of the Board to set the agenda or place items on the ballot, issues shall be added to the agenda or ballot in the following manner: a signed petition of at least twenty-five (25) members delivered to the Corporation office or any Director at least twenty five (25) days prior to the notice of any annual or any special meeting called pursuant to Paragraph 2.9 for that purpose shall cause that issue to be added to the agenda or ballot.

2.12 Financial Report and Newsletter. A newsletter shall be mailed to all property owners no later than July 31st which shall contain a full accounting (on a cash basis) of the prior year's budget. The newsletter shall also include any change in the Board of Directors membership, Board Officers, and road work plans for the following year with a proposed budget to support it. Also, a ballot shall be included so that members will have a minimum of forty-five (45) days to return it prior to the Annual Membership Meeting.

2.13 Membership Meeting Quorum. The quorum for membership meetings of the Corporation is met by the members participating in person, by proxy or by ballot, in any membership meeting for which notice is duly given under the By-laws, except as specified in Article IX, Section 9.1.

ARTICLE III. BOARD OF DIRECTORS

3.1 Number of Directors. There shall be a Board of Directors of the Corporation of not less than five (5) nor more than eleven (11) members. Subject to the foregoing limitations, the number of directors shall be not less than the number of members of the Corporation willing to so serve. One third (1/3) of the directors shall be elected each year by the members of the Corporation at their annual meeting to hold office until their successors shall have been elected, provided that the number of directors may be decreased or increased subject to the foregoing limitations, and if increased, the additional directors may be elected by the members at any special meeting called for such purpose to hold office until their successors have been elected. All members of the Board of Directors must be members of the Corporation and no two members of the same household may serve at the same time, unless there are less than 5 members elected to the Board.

3.2 Nomination of Directors. All members of the Corporation whose assessments have been paid in full as of the date of nomination are eligible to be nominated to serve on the Board of Directors. Nominations may be self-made, or made by another member, must be in writing, and must be accompanied by a resume of not more than one hundred words and mailed in such a manner that it is received by the Corporation no later than seventy-five calendar days prior to the scheduled date of the annual meeting of the members of the Corporation. The Corporation will not be responsible for lost, misdirected, or mail not received for any other reason, and any nominations received after the due date outlined herein will not be considered. Nominations and resumes will be published in a ballot sent to all members 45 days prior to the date of the annual meeting for the membership to elect the number required.

3.3 Election and Tenure. Directors shall be elected to serve a term of three (3) years beginning January 1st of the year following the election. Each director shall continue to exercise the powers and duties of the office until his successor shall have been elected by the Corporation.

3.4 Removal of Directors. The entire Board of Directors or any individual Director may be removed from office without cause by vote of a majority of members voting by proxy, ballot, or in person at any annual or special membership meeting. Any Director may be subject to removal and the

question of his removal placed on the ballot at the next special or annual membership meeting if a petition seeking the removal of the Director signed by twenty-five (25) or more members is delivered to the Corporation office or any Director at least thirty (30) days prior to the notice of any annual meeting or any special meeting called pursuant to Paragraph 2.8 or 2.9 for that purpose. A Director shall be subject to removal for absence of more than two (2) consecutive regular Board meetings unless the absence is waived by the Board.

3.5 Vacancies. Vacancies on the Board of Directors shall be filled by the person who received the next highest number of votes at the preceding election of Directors. In the event there is no such person, or said person declines, the Board of Directors may elect a new Board member who meets the requirements of Article 3.2 and agrees to serve only until the end of that year. That person would be eligible to run for a full 3 year term for the following year. A person elected by the Board will have full authority as a regular Board member, however that person shall not be eligible for re-election by the Board the following year.

3.6 Compensation. No Director shall receive compensation for the services he may render to the Corporation. However, any Director may be reimbursed for his actual expenses incurred in the performance of his duties with Board approval.

3.7 Meetings, Notice, Quorum. An open annual meeting of the Board of Directors shall be held each year immediately after the adjournment of the annual meeting of the members of the Corporation and at the place of such annual meeting, without call or formal notice for the purpose of electing officers of the Corporation for the following year. Newly elected Board members shall be able to run and vote for officers of the Corporation. Special meetings may be called by the President of the Corporation or by any two (2) members of the Board of Directors, and any such meeting shall be held on such day, at such time and such place in the community as shall be specified by the person or persons calling the meeting. The Board shall meet monthly, or quarterly, and any such meetings shall be held on such date, time and place in the community as shall be specified by the Board of Directors. Interim Board of Directors meetings may be called at any time by the President or Vice President to deal with financial matters requiring immediate attention (matters that must be acted upon in a time that does not permit notice of a regular board meeting), so long as the action does not alter the Corporation's approved budget or paving plan, without fulfilling the notice requirements set forth in Section 3.8.

3.8 Notices. Notice of each regular and special meeting of the Corporation Board specifying the day, time and place of the meeting and the proposed agenda shall be given at least seven (7) days prior to the meeting by or under the direction of the Secretary, or by a person calling the meeting, to each member of the Board of Directors, by advising him in writing of the meeting, or by leaving written notice of the meeting at his residence or usual place of business as shown on the Corporation's books, or by mailing written notice of the meeting, postage prepaid, addressed to him at such residence or usual place of business or by telephone communication. Non-receipt of written notice actually mailed of any meeting by any member of the Board of Directors shall not invalidate the meeting or any proceedings taken or any business done at the meeting. Any member of the Board of Directors may waive notice of any meeting either prior to or after the meeting, with the same effect as though notice of the meeting had been given him. The presence of any member of the Board of Directors at a meeting shall be the equivalent of a waiver by him of notice of the meeting.

3.9 Agenda for Regular and Special Board Meetings. The notice required for the regular and special meetings of the Board of Directors shall include an agenda of the matters to be decided upon at such meeting. No matter not on the agenda shall be decided at that meeting except as to financial matters requiring

immediate attention (matters that must be acted upon in a time that does not permit notice or agenda to be published), so long as the action does not alter the Corporation's approved budget or paving plan.

3.10 Quorum. A majority of the members of the Corporation Board shall constitute a quorum for the conduct of business and any decision of a majority of such quorum within the scope of the authority of the Corporation Board shall be valid and binding on the Corporation unless a greater number is required by law.

3.11 Notice of Board of Director's Meetings to Membership. In addition to the notice required in 3.8, if the Corporation Board has on the agenda for any regular or special board meeting a proposal to alter the previously accepted road maintenance plan or budget as a result of increased material or labor costs, in addition to the notice above, notice of such meeting and the agenda including the proposed changes, shall be published in the West Hawaii Today, and the Hilo Tribune at least two (2) weeks prior to such meeting and such notice and agenda shall be mailed to the membership, first class mail, at least fourteen (14) days prior to such meeting. Notice shall be given at least seven (7) days before any regular Corporation Board meeting. The notice of such meeting and the agenda shall be posted at the Corporation office, on the HRRMC Bulletin Board and elsewhere as determined by the Board.

3.12 Attendance by Members. Any member may attend any meeting of the Corporation Board, save that the Board in its discretion, may declare an executive session to discuss and make decisions concerning the following issues provided that such resolved decisions are announced at the next membership meeting:

- (a) Labor contracts;
- (b) Litigation involving the Corporation;
- (c) Hiring, firing and disciplinary action concerning employees.

3.13 Officers and Agents; Designation of Duties. The officers of the Corporation shall be a President, one or more Vice-presidents, a Secretary and a Treasurer, who shall be elected by the Board of Directors and who shall hold office until their successors are qualified and installed. The Corporation may have such other officers, agents, and factors as may be deemed necessary, who shall be elected in such manner and hold their offices for such terms and have such authority and duties as may be determined by the Board of Directors. All officers shall be members of the Corporation. As far as is permitted by law, directors may be elected officers. In addition to the duties and powers set forth herein, each officer shall have such duties and powers as are commonly instant to his office and such duties and powers as the Board of Directors shall from time to time designate. In all cases where the duties of any officer, agent, or employee are not specifically prescribed by these By-laws, or by the Board of Directors, such officer, agent or employee shall obey the orders and instructions of the President.

3.14 President. Subject to the control of the Board of Directors, the President shall be the chief executive officer of the Corporation and shall exercise general supervision and direction over the management and conduct of affairs and business of the Corporation.

3.15 Vice-president. The Vice-president, or if more than one shall have been appointed the Vice-president in order of priority of appointment, shall assume and perform the duties of the President in the absence or disability of the President or whenever the office of President is vacant. Each Vice-president shall have such other powers and duties as may be given to him by law or in these By-laws or as may be assigned to him from time to time by the Board of Directors or by the President.

3.16 Secretary. The Secretary shall have charge of the membership ledger, all documents pertaining to the title to all real property owned or held by the Corporation, and all rules, regulations, and other documents required to

be filed with the Corporation or in the office of the Corporation by these By-laws. The Secretary shall cause to be recorded all proceedings of the meetings of the members and Directors in a book and on tapes, which shall be the property of the Corporation, with the original or duplicate copy to be kept for that purpose at the office of the Corporation in Hawaii and perform such other duties as shall be assigned to him. In the absence of the Secretary from any such meeting, a temporary secretary shall be chosen and shall record the proceedings of such meeting in the book.

3.17 Treasurer. Subject to the direction and under the supervision of the Board of Directors and the provision of these By-laws, the Treasurer shall oversee the care and custody of the funds and valuable papers of the Corporation, shall have power to endorse for deposit or collection all notes, checks, drafts, and other obligations for the payment of money to the Corporation or its order, and shall keep or cause to be kept accurate financial books and accounts of the Corporation and to render reports on a cash basis as often as required by the Board of Directors.

3.18 Removals, Resignations, Vacancies. The Board of Directors may, at any meeting called for the purpose by a vote of the majority of their entire number, remove from office any officer of the Corporation for or without cause. The Board of Directors, at any meeting by vote of a majority of the Directors present at such meeting, may accept the resignation of any agent or any member of any committee appointed by the Board of Directors, or by any committee appointed by the Board of Directors or by any officer or agent of the Corporation. Any vacancy occurring in the office of President, Vice-president, Secretary, or Treasurer, or any other office, shall be filled by the Board of Directors and the officer so chosen shall hold office for the unexpired term in respect of which the vacancy occurred and until their successors shall be duly elected and qualified.

3.19 Bonding. All officers and directors with the authority to handle funds of the Corporation shall be adequately bonded by standard fidelity bonds, provided, however, that in all cases the President, Treasurer, and office manager shall be bonded. Adequate bonding as required hereunder shall mean a bond of sufficient size to adequately protect the Corporation from any acts of malfeasance or misfeasance of corporate personnel commensurate with the amount of money being handled by such person or persons.

ARTICLE IV. POWERS AND DUTIES OF THE BOARD OF DIRECTORS

4.1 General Powers and Duties. The business, property and affairs of this Corporation shall be managed by the Board of Directors. The Board of Directors shall have all powers and duties as provided by law and as may be necessary or proper to accomplish the purposes of the Corporation, including, without limitation.

4.2 Managing Agent. The Board may employ a responsible managing agent to manage and operate the affairs of the Corporation, subject at all times to direction by the Board, and having such powers and duties and at such compensation as the Board may establish. Any contract for the employment of a managing agent shall be subject to the proper approval of a majority of the members who vote at any annual or special membership meeting called for the purpose.

ARTICLE V. ASSESSMENTS

5.1 Definition of Road Maintenance Expenses. Road maintenance expenses means all costs and expenses of operating and administering the Corporation during a fiscal year. Road maintenance expenses shall include, without limiting the generality of the foregoing, all costs and expenses of repairing, maintaining, and improving the Ranchos road system, all expenses for salaries, taxes, assessments, utilities, operating expenses, insurance and bond premiums, accounting and legal fees, management fees, deficits and income from prior years, the establishment of operating and other reserves, and all other charges and outgoing of every description to which the Corporation or its property may be assessed or become liable.

5.2 Purpose. It is the intent of these By-Laws that each owner of a Ranchos lot will be responsible for and pay a proportionate share of the road maintenance expenses. Each lot owner's share of such road maintenance expenses shall be due and payable in annual, semi-annual, or quarterly installments, as determined by the Board and shall be due within sixty (60) days after mailing notice of assessment by the Corporation. The Board may determine that semi-annual or quarterly installments may be assessed interest as set forth in Paragraph 5.8.

5.3 Assessment for Road Maintenance Expenses. Each owner of a Ranchos lot, or in the event of multiple owners, such multiple owners jointly and severally, shall be responsible for and shall pay to the Corporation a proportionate share of the annual road maintenance expenses by way of assessment as set out in these By-Laws.

5.4 Apportionment of Road Maintenance Assessments and Supplemental Assessments. The assessment payable by each Ranchos lot owner shall be equal to a fraction of such total expenses, the numerator of which fraction shall be the total number of Ranchos lots owned by such owner, and the denominator of which shall be the total number of all the Ranchos lots.

5.5 Determination of Assessment. Subject to the provisions of these By-Laws and the Articles of Incorporation, the Corporation Board shall have the power and authority to determine all matters in connection with the respective assessments payable to it, including, without limitation, power and authority to determine where, when and how such assessments shall be paid, and each owner shall comply with all such determinations.

5.6 Supplemental and Special Assessments. Subject to the provisions of the By-Laws and the Articles of Incorporation, in addition to the road maintenance assessments, the Corporation Board may levy supplemental assessments as a result of natural disasters, payable over such period as the Corporation may determine for the purpose of defraying any expense incurred as a direct result of actual material or labor cost increases from those set forth in the approved budget. Such supplemental and special assessments must be approved by a majority of those members voting by a ballot, proxy or in person at an annual or special membership meeting.

In addition to road maintenance assessments and supplemental assessments, the Corporation may levy special assessments against individual lot owners for expenses which are incurred or to be incurred by the Corporation as provided in the Bylaws. Specifically, the Corporation may levy fines or other sanctions against those who abuse and damage the road system, and control through tariff, charges or other means the use of heavy and/or commercial vehicles on the Hawaiian Ranchos road system. The Corporation may levy special assessments on lots with commercial activities to pay for the extra maintenance required. The Board shall have the sole discretion to levy such assessments. Specific situations which are subject to a special assessment include: 1) Commercial enterprises which increase traffic and therefore increase maintenance expenses; 2) Damage by construction equipment; 3) Damage by delivery vehicles; 4) Any misuse of roads which causes damage to them resulting in expenses to the Corporation.

5.7 Lien for Assessments and Other Amounts. All road maintenance assessments, supplemental and special assessments, together with late charges, interest, costs and reasonable attorneys' fees, shall be a charge on the land and the Corporation shall have a continuing lien against the owner's interest in such lot to secure payment of any assessments, charge or other amount due and owing to the Corporation, plus late charges and interest as provided in Paragraph 5.8, from the date due and payable until paid, plus all costs and expenses of collecting the unpaid amount, including attorneys' fees.

5.8 Effect of Nonpayment of Assessment; Remedies of Corporation. Any assessment which is not paid within sixty (60) days of its due date shall be delinquent. In the event that an assessment becomes delinquent, the Corporation in its sole discretion, may take any or all of the following actions:

- a) assess a late charge of ten (10%) percent of the amount delinquent per delinquency;
- b) assess interest thereon in an amount not to exceed 12% per annum;
- c) bring an action at law against any owner personally obligated to pay assessments should the lot be sold;
- d) file a Notice of Delinquency and Statement of Lien with respect to the lot, and foreclose on the lien as more fully set forth in Paragraph 5.9 hereof.

Any such action shall be in addition to any other remedies provided by law for the enforcement of such obligations.

5.9 Foreclosure of Lien. In the event that any assessment is delinquent for a period of three (3) years or more, the Corporation may file a Notice of Delinquency and Statement of Lien by recording in the Bureau of Conveyances of the State of Hawaii a written statement with respect to the lot, setting forth the name of the lot owner, the legal description of the lot, the name of the Corporation and the amount of delinquent assessments then owing, which statement shall be duly signed and acknowledged by an officer or director of the Corporation. A copy of such statement shall be mailed by certified mail, return receipt requested, to the owner at the address of the lot or at such other address as the Corporation may have in its records for such owner. If no return receipt or other proof of acceptance results from such mailing, then the notice of default shall be posted on the property and published in the West Hawaii Today and the Hilo Tribune newspapers. At any time after one year after the mailing of such notice, or publication and posting, the Corporation may proceed to foreclose the lien in the manner for foreclosure of mortgages in the State of Hawaii. The foregoing remedies shall be in addition to any other remedies provided by law for the enforcement of such obligations.

5.10 Foreclosure Restrictions. The Corporation or Board members may not purchase any property foreclosed by the Corporation. Former Board members may not purchase said properties for a period of three years after leaving the Board.

ARTICLE VI. BUDGET AND ROAD MAINTENANCE PLAN

6.1 Determination of Budget for Road Maintenance Assessments. The fiscal year of the Corporation shall be the calendar year. Prior to sending the notice of the annual membership meeting, as set forth in Paragraph 2.11, the Corporation Board shall determine the total amount to be raised by road maintenance assessments during that fiscal year and prepare a proposed budget as set forth below. The amount to be raised by the assessments for any fiscal year shall be determined in the following manner. The Corporation shall prepare, or cause to be prepared, and approve a budget for the fiscal year showing, in reasonable detail, the estimated road maintenance expenses which will be payable in that fiscal year to fulfill the regular operating functions and obligations of the Corporation in the fiscal year, including amounts necessary to cover obligations made in connection with, or contemplated under, any previously

approved budgets, plus an amount sufficient to provide a reasonable carry over reserve for the next fiscal year (the "operating budget") including any amount necessary to pay for improvements of the Ranchos road system. The Corporation Board shall subtract from the operating budget the amount equal to the anticipated surplus attributable to Corporate income received and assessments collected but not disbursed in the fiscal year immediately preceding the fiscal year for which the operating budget has been prepared.

If the Corporation Board fails to determine or cause to be determined the total amount to be raised by its assessments in any fiscal year, and/or fails to notify the owners of the amount of such assessments for any fiscal year, then the amounts of assessments shall be deemed to be either the amount assessed in the previous fiscal year or a maximum of \$60.00 per lot, whichever is lower.

6.2 Determination for Road Maintenance Plan. Prior to giving notice of the annual meeting, as set forth in Paragraph 2.11, the Corporation Board shall determine a plan for maintenance, repair, and improvement of the Ranchos road system to be completed for that fiscal year.

The road maintenance plan will specifically identify roads scheduled for repair, an estimated schedule for completion, the nature of the maintenance, repair and/or improvement and respective costs.

In developing the road maintenance plan, the Corporation Board shall endeavor to

utilize equitable principles in allocating the resources fairly among lot owners, with priority given to the primary road system, defined as all boulevards running in a makai direction from Highway 11, and Maile Dr.

6.3 Approval of Budget and Road Maintenance Plan at Annual Meeting. At each annual meeting of the members, the proposed budget and road maintenance plan will be submitted to the membership for voting. The proposed budget and paving plan and ballot for approval shall be submitted to the membership with the notice of annual meeting and agenda at least forty-five (45) days prior to the annual meeting.

The budget and road maintenance plan must be approved by a majority of the lot owners voting in person, by ballot, or by proxy at the annual membership meeting.

In the event that a majority of the voting members do not approve the budget and road maintenance plan, a new budget and road maintenance plan, shall be proposed by the Corporation Board which may not exceed the previous year's budget by ten (10%) percent. The Board must notify the membership of the revised road maintenance plan, budget and resulting assessment no later than the beginning of the fiscal year.

ARTICLE VII. USE OF RANCHOS ROAD SYSTEM

7.1 Use by Owners. All owners of Ranchos lots shall utilize the Ranchos road system in a reasonable manner.

7.2 Road Use Regulations. The Corporation Board may adopt reasonable regulations controlling the use of the Ranchos road system, including without limitation speed limits, placement of stop signs and other road signs, and use of and parking on road rights of way. Such regulations may require permits for vehicles in excess of certain weights or reasonable charges for special or commercial road usage as determined by the Corporation Board. No track vehicles shall be allowed on the Ranchos road system.

ARTICLE VIII. CONTRACTS, LOANS, CHECKS AND DEPOSITS

8.1 Contracts. All notes, acceptances, conveyances, contracts, and other instruments shall be signed by the President and Vice-president or the President

or Vice-president and the Treasurer or Secretary on behalf of the Corporation, only after resolution by the Board of Directors.

8.2 Loans. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless specifically authorized by a resolution of the Board of Directors. General authority will not be permitted. Such loans shall be executed by the President and Vice-president or the President or Vice-president and Treasurer or Secretary pursuant to such resolution.

8.3 Checks, Drafts, Etc. All checks, drafts, or other orders for the payment of money, notes or other evidences of indebtedness shall only be executed upon specific resolution by the Board of Directors and executed by the President and Vice-president or the President or Vice-president and the Treasurer or passed by the Board.

8.4 Deposits. All funds of the Corporation, not otherwise employed, shall be deposited to the credit of the Corporation in such banks, trust companies, or other depositories in the State of Hawaii, the deposits of which are insured by an agency of the United States government for the full amount of the balance of the account as the Board of Directors may select. The Corporation Board in its discretion subject to the advice and counsel of the Corporation accountant may deposit a portion of corporate funds in non-insured investments and accounts for purposes of obtaining higher interest on investments. However, such investments shall be conservative and prudent. The Board may hire an accountant or professional investment advisor to handle and safeguard all corporate investments.

ARTICLE IX. AMENDMENTS

9.1 These By-laws may be altered, amended, added to or repealed by an affirmative vote of two-thirds (2/3) of the members voting by ballot, proxy or in person at any annual meeting or special meeting called for that purpose. Notice of the proposed amendments shall have been given in the notice of annual or special meeting and such proposed amendments included on the ballot sent with the notice to the members. However, such amendments shall not change or alter the powers and purposes as set forth in the Articles of Incorporation and these By-laws.

ARTICLE X. GENERAL PROVISIONS

10.1 Inspection of Records. The membership register or duplicate membership register, the books of account, and the original or duplicate minutes of proceedings of the members, the Board of Directors, and the Executive Committee, if any, shall be open to inspection at the Corporation office upon the written demand by at least ten (10) Ranchos property owners at any reasonable time.

10.2 Indemnification. The Corporation shall indemnify every Director and Officer and his personal representative against all expenses actually and reasonable incurred by or imposed on him in connection with any action, suit or proceeding to which he may be made a party by reason of being or having been and agent of the Corporation if such person acted in good faith and in a manner he reasonable believed to be in or not opposed to the best interests of the Corporation and with respect to any criminal proceedings, had no reasonable cause to believe his action was unlawful. No indemnification shall be made in relation to matters as to which a party claiming indemnification shall be adjudged to be liable for negligence or misconduct in the performance of his duties to the Corporation, unless a court shall determine that despite the adjudication of liability but in view of the circumstances, such person is entitled to indemnity for such expenses as the court determines are proper. Any

indemnification shall be made by the Corporation in compliance with Section 416-35, Hawaii Revised Statutes (Supp. 1984). The foregoing right of indemnification shall not be exclusive of any other rights to which such person may be entitled.

10.3 Caption. The captions herein are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope of these By-laws, or the intent of any provisions hereof.

10.4 Annual Accounting. An annual audit report and account, including statements of income and disbursements on both an accrual and a cash basis, shall be available for inspection by members at the Corporation office not later than 120 days after the close of the Corporation's fiscal year or sent to any member for a fee of four dollars (\$4.00).

10.5 Inspection of By-laws. The Corporation shall keep in its principal office for the transaction of business the original or a copy of these By-laws as amended or otherwise altered to date, certified by the Secretary, which shall be open to inspection by the members at all reasonable times.

10.6 Gender. The use of a pronoun of any gender in these By-laws shall be deemed to include the other gender and the use of the singular shall be deemed to include the other gender and the use of the singular shall be deemed to include the plural.

10.7 Waiver. No restriction, condition, obligation, or provision contained in these By-laws shall be deemed to have been abrogated or waived by reason of any failure to enforce the same, irrespective of the number of violations or breaches thereof which may occur.

10.8 Severability. The provisions of these By-laws shall be deemed independent and severable, and the invalidity or partial invalidity or enforceability of any one provision shall not affect the validity or enforceability of any other provision.

10.9 Dissolution. Upon the dissolution of the Corporation or the winding up of its affairs, after payment of its just debts, the assets of the Corporation shall be transferred or distributed to an organization or governmental agency which assumes or has assumed responsibility for the maintenance and repair of roads within the Hawaiian Ranchos Subdivision. In the event that such transfer or distribution is refused, the assets shall be transferred or distributed to any non-profit corporation, association, trust or other organization to be devoted to purposes and uses that would most nearly reflect the purposes and uses to which they were required to be devoted by the Corporation, subject to a vote of the membership.