

HIDDEN VALLEY COMMUNITY SERVICE ASSOCIATION, INC

EXHIBIT "C" TO DECLARATION OF COVENANTS AND RESTRICTIONS

Management Standards Agreement

I. Definitions

- A. Agreement shall mean this Management Standards Agreement.
- B. Institutional Lender means one or more commercial or savings banks, savings and loan associations, trust companies, credit unions, industrial loan associations, insurance companies, pension funds, or business trust, including but not limited to real estate investment trusts, any other lender regularly engaged in financing the purchase, construction, or improvement of real estate, or any assignee of loans made by such a lender, or any private or governmental institution which has insured a loan of such a lender, or any combination of any of the foregoing entities.
- C. First Mortgagee shall mean an Institutional Lender who holds a purchase money mortgage on a Lot or Living Unit and who has filed such mortgage of record in Bernalillo County, New Mexico, or an Institutional Mortgagee who holds a first mortgage by agreement of the Association.
- D. Lead Lender shall refer to the First Mortgagee holding the greatest number of first mortgages on Lots and/or Units within the Properties.
- E. Prior Notice shall mean the sending of notice to whomsoever intended or required by certified, return receipt requested mail thirty days in advanced of a proposed action.
- F. Approval shall be deemed secured either when written notice to such effect has been received, or when thirty (30) days have elapsed following Prior Notice and no response has been received.
- G. Professional Community Management Firm shall mean a bona fide business enterprise that undertakes the management of or provides management consulting services to common interest residential communities which have common areas subject to care, custody and control of an association whose members are the residents of such a community.
- H. Manager shall mean a Professional Community Management Firm.
- I. Financial Management shall mean billing, collecting, and accounting activities.

- J. Property Management shall mean bid invitations, contract negotiations, and supervision related to contract services, personnel and insurance coverage.
- K. Required Insurance shall mean such insurance and related provisions as are set forth in the Agreement as it may be amended from time to time.

II. Administrative and Operating Procedures

- A. The Board of Directors shall employ a Professional Community Management Firm or Firms to perform Financial and Property Management on behalf of the Association, subject to the following requirements and conditions:
 - 1. The Professional Management Firm shall supply the Board of Directors with an affirmative statement that those persons with such firm who will meet with the Board and give advice relative to the administrative operations of the association (involving matters of insurance, accounting, statutory requirements, and similar technical matters) have at least a reasonable level of knowledge and understanding of such matters sufficient to advise the Board as to actions it is considering or involved in. Such a stipulation should not be construed that the Firm will offer or render the kind of advice which is restricted to licensed professionals such as attorneys, engineers, and insurance agents, but should clearly impose upon the Firm the burden of providing to the Board representatives who possess a competency beyond that of an ordinary layman with respect to the various technical skills required in routine functioning of Association.
 - 2. The Board of Directors reserves the right to solicit and negotiate arrangements with Professional Community Management Firms and registered, licensed professionals such as Certified Public Accountants, lawyers, engineers, and similar individuals or groups.
 - 3. The Manager shall not accept from vendors, independent contractors, or others who provide services or goods to the Association any remuneration in the form of commissions, finders' fees, service fees or the like in consideration for such goods and services.
 - 4. Financial Management Requirements:
 - a) The method of accounting shall be the cash based method
 - b) The cash accounts of the Association shall not be comingled with any accounts of any other organization or person
 - c) The Financial Manager shall provide quarterly financial reports to the Association, including at least the following:

- (1) Balance Sheet
- (2) Income Statement, in an actual-versus-budget format
- (3) Cash activity report

At such time as projected annual expenses exceed \$5,000.00, the financial reports shall be provided monthly

- d) The Financial Manager shall provide a monthly list of delinquent accounts
- e) The Financial Manager shall continually review receipts and expenditures and provide notice to the Board of actual or pending obligations which appear to represent an adverse trend relative to the adopted budget. Failure of the Manager to provide such notice shall not be construed as negligence on his part; however, this provision shall impose a standard of competency upon the Manager which, if not met, may be deemed a just cause for contract termination or removal from office.

5. Property Management Requirements

- a) The Manager shall have the authority to commit Association funds up to five hundred dollars (\$500.00) for any single expenditure, providing such commitment does not serve to obligate the Association for more than one year and that it is within the budget authorization. All other expenditures shall require prior approval by the Board of Directors.
 - (1) Notwithstanding this provision, the Manager shall have the authority to commit Association funds up to five-thousand-dollars (\$5,000.00) for emergency repairs immediately necessary for the preservation and safety of the Association or its members or to avoid the suspension of life support services, without prior approval of the Board of Directors, providing the prompt notice is given to the President of other designated Officer.
- b) The Manager must disclose the extent of financial interest that he may have in any firm's or person's activities when such firm or person is providing goods or services to the Association.
- c) The Manager shall provide employee supervision and give advice to the Board on personnel matters; however, the Board of Directors reserves the right to hire, fire, and discipline all employees and set compensation rates and benefits.

6. The term of the management contract shall be for one year and allow termination by either party, with or without cause during such term, after thirty (30) days' notice. The contract may be renewed with the same Manager for subsequent terms.

- B. The Board of Directors may undertake a program of self-management in the event a two-thirds (2/3) majority of the Board of Directors deems such action to be in the best interest of the Association
- C. All Institutional Lenders shall have a right to inspect all books and records of the Association.
- D. The Board shall give to the Lead Lender and such other First Mortgagees as may request it, the expeditious notice of any civil action or liens lodged against the Association or Officers or Director regarding their conduct in administering the affairs of the Association.

III. Insurance

A. Location of Policies

- 1. True copies of all insurance policies required pursuant to this Agreement shall be furnished to the Lead Lender if requested.
- 2. The Association shall retain the original of all insurance policies whatsoever in a place of safekeeping such as in a safe, a safety deposit box or in the professional management company's office.

B. Notice of Change in Insurance Coverage

- 1. No change whatsoever in the coverage provisions, as to the risks covered, the ratio to value of coverage or endorsements by way of additions, deletions, or modifications may be effected by the Association without Prior Notice to Lead Lenders and regards Required Insurance.

C. Policy Provisions as to Coverage, Amounts, and Endorsements

1. Property Insurance

A policy of property insurance in an amount equal to the full replacement value (i.e., 100% of current "replacement cost" exclusive of land, excavation, and other items normally excluded from coverage) of the common facilities owned by the association (including all building services equipment and the like) with an "Agreed Amount Endorsement" or its equivalent, and if economically feasible a "Demolition Endorsement" or its equivalent, and an "Increased Cost of Construction Endorsement" or "Contingent Liability from Operation of Building Laws Endorsement" or the equivalent. The policy shall afford protection against at least the following:

- a) Loss or damage by fire and other hazards covered by the standard extended coverage endorsement, debris removal, vandalism, malicious mischief, windstorm and water damage; and
- b) Such other risks as shall customarily be covered with respect to projects similar in construction, location, and use

2. Public Liability Insurance

A comprehensive general liability insurance policy covering the Association and owners, including but not limited to endorsements for Blanket Contractual, Broad Form Property Damage, Additional Interest of Employees, Auto and Watercraft Non-Ownership, Fire Damage Legal Liability, Personal Injury and Advertiser's Liability, World-Wide Products, Incidental Malpractice, Host Liability and Medical Payments, as may be applicable. The public liability coverage at a minimum shall be structured as follows:

- a) A policy providing for \$100,000 coverage for each person and \$300,000 coverage for each occurrence shall be maintained in full force; and
- b) \$50,000 property damage liability; and
- c) A \$1,000,000 "umbrella" all-risk policy shall be maintained in full force covering, in addition to the above items, such other risks as are customary under an all-risk policy, with an insured's retained limit of not more than \$10,000 for coverages not insured by the underlying insurance.

3. Personnel Coverages

- a) Should the Association employ personnel, all coverages required by law, such as Workmen's Compensation and Employer's Liability, shall be maintained in full force.
- b) A Specific prohibition exists under this Agreement against the board "contracting" with any person who is not bona fide independent contractor. The Board shall obtain from each contractor his employer identification number and, where applicable, evidence of having a policy in force of general liability and property damage acceptable to the Board.

4. Insurance Provisions

In all cases and as applied to Paragraph 1 above and to the extent clearly applicable to Paragraph 3, the insurance obtained shall be subject to the following provisions and limitations:

- a) The named insured shall be the Association who, through the Board, shall negotiate loss claims, receive and administer funds received pursuant to claim settlements.
- b) In no event shall the insurance coverage obtained and maintained pursuant to the requirements of this Agreement be brought into contribution with insurance purchased by the owners of the Living Units or Lots or their mortgagees.
- c) Such policies shall provide that coverage shall not be prejudiced by (1) any act or neglect of the owners of Living Units or Lots, (2) conditions over which the Association has no control.
- d) All policies shall provide that coverage may not be cancelled or substantially modified (including cancellation for nonpayment of premium) without Prior Notice to the insured and Lead Lender.
- e) All such policies shall contain a waiver of subrogation endorsement.
- f) All policies of property insurance shall provide that, notwithstanding any provisions thereof which give the carrier the right to make a cash settlement in lieu of the right to restore, such option shall not be exercisable without the prior written approval of the Board.
- g) Each and every policy for Required Insurance shall contain a stipulation that the carrier received a copy of the Governing Instruments, including this Agreement, and that all provisions of each and every policy issued are in conformance with the provisions of said instruments and the carrier shall have been in possession of at the time of issuance of such policies.

5. Fidelity Insurance

The Board shall be required to maintain adequate fidelity coverage to protect against loss of money through any fraudulent, dishonest acts on the part of Officers, Directors, employees, or others who are responsible for handling funds of the Association. Such fidelity bonds shall meet the following requirements:

- a) All such fidelity bonds shall name the Association as an obligee; and
- b) In determining the amount of coverage, the Board shall consider such factors as projected annual income, reserve account balances, financial control procedures, recommendations of its auditors, and Professional Community Management Firm, and requirements of Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), or other institutional or governmental purchasers or insurers of mortgages.
- c) Such fidelity bonds shall contain an endorsement affording coverage for non-compensated Officers and Directors.

- d) Such bonds shall provide that they may not be cancelled or adversely modified (including cancellation for nonpayment of premium_ without at least fifteen (15) days' Prior Notice to the insured and the Lead Lender.

6. Notice of Claim Filings

The Board shall notify the Lead Lender of any claims filed in excess of five thousand dollars (\$5,000.00)

IV. Reserve Accounts

- A. The Board of Directors shall maintain in a separate interest-bearing account reserves for Operations and for Capital Replacement and Repair, wherein are placed the annual contributions from members to such reserves, which contributions shall be conclusively presumed a contribution to the capital of the Association.
- B. The annual contribution to the Reserve for Operations shall be the equivalent to three percent (3%) of assessment income for the year. The annual contribution to the Capital Replacement and Repair Reserve shall be, at the minimum, the equivalent of three percent (3%) of the Annual General Assessment income for the year.
- C. Withdrawals
 - 1. Withdrawals from any Reserve Account shall be authorized by a two-thirds (2/3) vote of the Board of Directors, following Prior Notice to the Lead Lender, such notice to include the amount and purpose of the withdrawal.
 - 2. Withdrawals from the Capital Replacement Reserve may only be used for restoration, repair, and replacement of existing capital improvements, not for new facilities or additions or improvements to existing facilities or property.
 - 3. Operating Reserve withdrawals may only be used for unanticipated major expenditures, uninsured casualty losses and single year budget overruns caused by uncontrollable and unforeseen events.
 - 4. The Board of Directors may borrow against the Reserve Accounts for current operations, providing such loans are repaid to the Reserve Account within two years.

V. Amendments

Amendments to this Agreement shall be valid only when

- A. A majority of the board of Directors has affirmatively agreed to the proposed amendment; and
- B. Prior Notice has been given to all owners; and
- C. The amendment has been recorded

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