

17-13-06  
my Atty. Robert  
Ardal

## MANAGEMENT AGREEMENT

This Agreement is entered into by and between UNITED LAGUNA HILLS MUTUAL, a California nonprofit mutual benefit corporation (hereinafter referred to as “**Owner**”), and PROFESSIONAL COMMUNITY MANAGEMENT, INC., a California corporation (hereinafter referred to as “**Agent**”), with reference to the following recitals.

A. This Agreement relates to certain cooperative housing projects owned and operated by Owner located within the private community commonly known as Laguna Woods Village (hereinafter referred to as “**LWV**”), in the City of Laguna Woods, County of Orange, California.

B. The development of Owner was financed in part by mortgage loans made by United California Bank (and its successors) as originating Mortgagee (the mortgage and related documents collectively referred to as the “**Loan Documents**”) which are now held by several institutions and which are insured by the Federal Housing Administration, now known as the Department of Housing and Urban Development or “**HUD**.”

C. Owner desires to contract with Agent for all services necessary in connection with the management, operation and maintenance of its property in accordance with Owner’s Articles of Incorporation and Bylaws, the Occupancy Agreements, and other matters of title affecting the Project, the Loan Documents, and the applicable rules and regulations of HUD (collectively, the “**Governing Documents**”), as provided below, and Agent desires to provide such services.

D. As used in this Agreement:

(a) The term “**Affiliate**” shall mean, with respect to Agent, any person or entity which controls, is controlled by, or is under common control with, Agent, or beneficially owns ten percent (10%) or more of Agent.

(b) The term “**Assessments**” shall mean those amounts which members are bound to pay to Owner pursuant to the terms of their respective Occupancy Agreements.

(c) The term “**Consenting Parties**” shall mean (1) the Mortgagee as herein defined, and (2) HUD acting through its Commissioner of his duty authorized representatives.

(d) “**GRF**” shall mean Golden Rain Foundation of Laguna Hills, the California nonprofit mutual benefit corporation which currently is Trustee under the Trust Agreement and is responsible for the maintenance and repair of community facilities or the provision of non-Trust related services requested by Owner.

(e) The term “**Gross Collections**” shall mean those amounts actually collected by Agent, either as Assessments or otherwise.

(f) The term “**Mortgagee**” shall mean a holder of a Mortgage.

(g) The term “**Mortgage**” shall mean any deed of trust by and between Owner, as trustor, and any Mortgagee, as beneficiary, which is insured by HUD pursuant to the authority

contained in Section 213 of the National Housing Act and the regulations promulgated thereunder and which relates to one or more of the HUD projects identified on Exhibit A.

(h) The term “*Occupancy Agreements*” shall mean those certain forms of agreement or recorded instruments between Owner and its members (and any renewals thereof) under the terms of which said members are entitled to enjoy possession of their respective dwelling units.

(i) The terms “*Trust Agreement*” or “*Trust*” shall mean the Trust Agreement, as amended, and a related agreement, as amended, among GRF, the Mortgagees, and certain stock cooperative and condominium nonprofit mutual benefit corporations entered into for the benefit of said corporations and their members.

NOW THEREFORE, In consideration of the terms, conditions, and covenants hereinafter set forth, the parties hereto mutually agree to the foregoing and as follows:

#### ARTICLE 1. Appointment and Acceptance.

(a) Owner hereby appoints Agent and Agent hereby accepts appointment on the terms and conditions hereinafter provided, as the exclusive managing agent for the real property and personal property formerly owned by predecessor mutual housing corporations (“*Mutuals*”) of Owner, located in the City of Laguna Woods, State of California. Attached as Exhibit A to this agreement is a schedule of all HUD project numbers, former Mutuals and dwelling units covered by this Agreement (collectively, the “*Project*”).

(b) Agent, notwithstanding the authority given to Agent in this Agreement, shall confer fully and freely with Owner in the performance of its duties as set forth herein. Agent shall encourage wherever possible the principles of cooperative effort among the members of Owner consistent with such policy guidance as may be given by Owner, and shall attend membership and directors’ meetings of Owner at any time or times requested by Owner.

(c) In order to facilitate efficient operation, Owner shall inform Agent with regard to standards to be kept and furnish Agent a set of community rules. To the extent available, a complete set of plans and specifications of the Project as finally approved by HUD has previously been furnished to Agent. With the aid of such documents, the Governing Documents and inspections by competent personnel, Agent shall inform itself with respect to the layout, construction, location, character, plan and operation of the lighting, heating, plumbing, and ventilation systems, lifts, and other mechanical equipment in the Project for which Owner is responsible.

#### ARTICLE 2. Duties and Services.

(a) General Manager. Agent shall employ in its own name and at its own expense a General Manager whose appointment shall be made by Agent on an annual basis and approved by Owner in writing. The General Manager shall maintain an office at LWV and shall devote full time exclusively to performance of services hereunder and under management agreements executed by other corporations which now or hereafter own or manage real property in LWV. The General Manager shall not be a member of Owner nor occupy a dwelling unit in LWV.

Under the personal and direct supervision of the General Manager, Agent's employees shall render services and perform the duties as managing agent as set forth in this Article 2.

(b) General Duties.

(i) Agent shall provide or cause to be provided all services and personnel required to manage the Project at all times in the manner consistent with the terms and conditions of this Agreement and the provisions of the Governing Documents. Agent will use commercially reasonable efforts to manage the Project consistent with the Governing Documents and will consult with and keep Owner advised, through its Board of Directors (the "**Board**"), as to all major policy matters affecting the Project. Agent shall have all reasonable discretion, subject to the terms of this Agreement and the Budget then in effect, with respect to the direction, supervision and management of the Project. Subject to the limitations set forth in paragraph (g) below, Agent may employ and delegate its duties and obligations hereunder to one or more subagents and subcontractors for such periods and upon such terms as Agent deems proper, but such delegation shall not relieve Agent of its obligation to perform such delegated duties and obligations.

(ii) Agent and those of its employees, including the General Manager, who handle or are responsible for handling Owner's money or other personal property shall furnish a fidelity bond, at the expense of Owner, in an amount and written by a company acceptable to Owner, the Mortgagees and HUD.

(c) Specific Duties. While the following enumeration of duties is not to be construed in any way as limiting the duties of Agent, Agent shall perform the following duties:

(i) Administrative Duties.

(1) Compile and maintain a current and accurate list of members of Owner (the "**Register**"), setting forth the name, mailing address and telephone number of each member, make such record changes as are appropriate in connection with all transfers of resident memberships, and make such Register available to Owner and any member in accordance with the Governing Documents.

(2) Maintain cordial and businesslike relations with the members of Owner, courteously receive, record and act in a timely manner upon requests and complaints with regard to services provided by Agent hereunder and notify the member and Owner as appropriate. Requests involving any material change in the nature and extent of services shall, after thorough investigation, be reported to Owner with appropriate recommendations for approval by Owner.

(ii) Fiscal Duties.

(1) Budget. Agent shall, not less than ninety (90) days before the beginning of each fiscal year of Owner, prepare and submit an operating budget to the Board for its consideration and adoption the Budget for the forthcoming fiscal year in sufficient detail as determined by the Board (the "**Budget**") setting forth an itemized statement of the anticipated receipts (including a schedule of monthly charges to be collected) and disbursements for said fiscal

year and taking into account the condition of the Project. Each such budget, containing a plan of operation and justifying the estimates made in every important particular, shall be approved by Owner and submitted thereafter to HUD in final form at least thirty (30) days prior to the commencement of the fiscal year for which applicable. Unless approved by Owner, the plan of operation as submitted by Agent shall not include any material change in the type or extent of services to be rendered. Following such approval, copies of the instrument of approval shall be furnished to Owner. The operating budget shall serve as a supporting document for the schedule of monthly charges to be collected for the applicable fiscal year, shall constitute a major control under which Agent shall operate, and there shall be no substantial variance therefrom, except such as may be consented to by Owner. Upon request, Agent shall provide to Owner accounting records of the costs and expenses incurred during the prior fiscal years for any one or more line items of the Budget. Notwithstanding any other provision of this paragraph, the plan of operation insofar as it relates to facilities and services to be provided by GRF shall be determined by GRF in accordance with that certain Trust Agreement entered into between Owner and GRF and in accordance with the Bylaws of GRF, and the Budget shall include Owner's share thereof.

(2) LWV Communication. Prior to Agent's initial preparation of the Budget, Agent shall use its best efforts to assemble officers of Owner and all LWV corporations to establish goals and objectives for the Budget and operational plan, and the performance of Agent's duties and responsibilities thereunder.

(3) Assessments.

(A) Recommendation. Agent shall make recommendations to the Board as to what the aggregate amount of the Assessments shall be for each forthcoming Fiscal Year, based upon the Budget it has submitted to the Board for such forthcoming Fiscal Year. Agent shall also make recommendations to the Board when it believes that it would be in the best interests of Owner for Owner to impose special assessments and/or sub-owner assessments, specifying in connection therewith the purpose of the recommended Assessments and the amount of money which Owner would need to raise through any such Assessments.

(B) Levy, Collection and Enforcement. Request and collect (including the institution of such legal action as necessary with prior consent of Owner), receive and receipt for any and all money which at any time may be or become due to Owner, including without limitation levying, collecting and enforcing payment of Assessments. As a standard practice, Agent shall furnish Owner with an itemized list of all delinquent accounts, together with information as to efforts to collect same, concurrently with monthly financial statements.

(4) Bank Accounts. Agent shall establish the bank accounts for deposit of monies of Owner in a bank or banks whose deposits are insured by the Federal Deposit Insurance Corporation. All bank accounts shall be managed by Agent as agent of Owner and in a manner and form to indicate the custodial nature of said accounts satisfactory to Owner. Monies of Owner shall not be commingled with monies of Agent or any other party, including without limitation other corporations which own or manage real property in LWV Village. Agent shall keep accurate books and records reflecting the amount of moneys collected from each Member.

Except as otherwise directed by Owner, Agent shall invest monies of Owner in securities which are a direct obligation of or guaranteed by the United States of America.

(5) Disbursements. Subject to the dollar amount limitation stated below, Agent shall disburse from the bank accounts of Owner any and all amounts required for the payment of all Owner expenses, including without limitation, all sums due and payable by Owner, including costs and expenses authorized to be incurred by Agent under the terms of this Agreement, the single aggregate payment required to be made monthly to the Mortgagees, including the amounts due for HUD mortgage insurance premiums, taxes and assessment, fire and other hazard insurance premiums, interest on the mortgage, amortization of the principal of any Mortgage, Owner's share of the amounts payable by Agent for salaries of Agent's employees and salary related expenses incurred by Agent in connection with employment of its employees as provided in this Agreement; and Agent's fees; except that any single disbursement in excess of One Hundred Thousand Dollars (\$100,000) shall require the countersignature of an authorized officer of Owner. After such disbursement in the order specified herein, any balance remaining in such accounts may be disbursed, transferred or invested from time to time in accordance with the Budget or otherwise as directed by Owner in writing. The parties hereto agree that all revenues collected accrue to the benefit of Owner and that from those revenues Agent is entitled to no amounts except for specific reimbursement of costs and expenses authorized to be incurred under the terms of this Agreement.

(6) Financial Statements. Agent shall cause to be prepared all of the financial statements provided for in the Governing Documents and copies thereof to be distributed to each Member in the manner and at the time provided for in the Governing Documents.

(7) Books and Records. Agent shall keep and maintain or cause to be kept and maintained comprehensive and adequate books and records in a manner satisfactory to Owner and to the Consenting Parties reflecting the results of administering and managing the Project in accordance with the HUD Uniform System of Accounts. These books of accounts and other records relating to the Project shall be available to Owner and its representatives and the Consenting Parties at all reasonable times for examination, audit, inspection and transcription. Not later than the twentieth day following the end of the month, a balance sheet, operating statement, a monthly comparison of amounts of income and expenses to amounts of same projected in the Budget and such other information and in such forms as may be requested by Owner from time to time, as of the end of the preceding month. Agent shall cause an annual financial report to be prepared and certified by a certified public accountant approved by Owner, based upon examination of the books of account and records of Owner, which report shall be submitted to Owner together with such other reports and supplementary information as may be required by Owner.

(8) Insurance. Agent shall procure and keep in force in the name of Owner all insurance required by the provisions of the Governing Documents and shall administer all such insurance and claims made under such insurance policies.

(9) Professionals Agent may engage such legal, accounting, and other professional services as are necessary or proper for the operation of the Project, the

administration of Owner, and/or the enforcement of the Governing Documents, and subject to the Budget, Owner shall be responsible for the fees and expenses related thereto.

(10) Liens and Encumbrances. Agent shall pay the amount necessary to discharge any lien or encumbrance against the Project, if deemed appropriate by the Board.

(iii) Physical Duties.

(1) Inspections. Agent shall make regular inspections of the Project and render reports and make recommendations to the Board concerning the condition of this property not less than annually.

(2) Repair and Maintenance of Project. Agent shall cause the Project to be repaired, maintained, furnished, and refurnished in accordance at all times with the highest standards achievable, in a condition satisfactory to Owner and in accordance with the provisions of the Governing Documents. In connection with the foregoing, Agent may establish reserves for anticipated costs, including but not limited to, the costs of acquisition and replacement of equipment and to acquire and pay for equipment, materials, supplies, furniture, labor, and services which the Board deems necessary or proper for the maintenance and repair of the Project. For any one item of repair or replacement, the expense incurred shall not exceed the sum of \$7,500 unless provision has been made for same in the Budget, or unless specifically consented to by Owner; however, emergency repairs, involving manifest danger to life or property, or immediately necessary for the preservation and safety of the Project, or for the safety of the members, or required to avoid the suspension of any necessary services to Owner, may be made irrespective of the cost limitation imposed by this paragraph. Notwithstanding the foregoing authority, if at all possible, Agent shall confer immediately with Owner regarding every such expenditure and in any event file with Owner a written report regarding same. Unless included in the Budget, Agent shall not incur liabilities (direct or contingent) which at any time shall exceed the aggregate of \$15,000, or which shall mature more than one year from the creation thereof, without first obtaining the consent of Owner and, to the extent required, by HUD.

(3) Project Services. Agent shall place orders for and purchase water, electricity, gas, fuel, telephone, and vermin extermination services, equipment, tools, appliances, materials and supplies and such other goods and services as may be necessary to operate, maintain and improve the Project properly and to provide all services appurtenant thereto. When and as directed by Owner, Agent shall conduct negotiations on behalf of Owner for acquisition or disposition of real property and make contracts for improvements of real property now or hereafter owned by Owner, subject to the review and approval of Owner, and shall regularly report to Owner the status of these negotiations. All property, real or personal, purchased at the expense of Owner shall be the property of Owner. All such contracts, orders and purchases shall be subject to the limitations set forth in paragraph (g) of this Article. In exercising the authority set forth in this paragraph, Agent shall secure for and credit to Owner any discounts, commissions, or rebates obtainable. Any interest of Agent or of any of its officers, directors or employees in any contract, order or purchase proposed to be made on behalf of Owner shall be disclosed to Owner prior to obligating Owner therefor. When and as directed by Owner, Agent shall provide construction management or supervision on behalf of Owner.

(4) Insurance. Obtain and keep in force all forms of insurance, as recommended by an established insurance broker and/or insurance analyst, required to protect Owner adequately, including but not limited to worker's compensation insurance, insurance against liability arising out of death, personal injury, property damage, acts and omissions of officers and directors, operation of motor vehicles, boiler insurance, fire insurance with extended coverage, insurance against loss arising out of burglary and theft, and such other insurance as may be authorized by Owner. All insurance obtained for the benefit of Owner shall be placed with such companies, in such amounts, and with such beneficial interests appearing therein as shall be acceptable to Owner. Agent shall investigate promptly and make full written reports to Owner as to all accidents or claims for damage relating to the ownership, operation and maintenance of the Project, including any damage or destruction to the Project, and the estimated cost of repair, and shall cooperate and make any and all written reports required by any insurance company in connection therewith.

(5) Other Entry Rights. Secure full compliance with such rules and regulations as may be promulgated by Owner from time to time with respect to the use of the Project and the services provided in connection therewith and, to this end, see that all members and other affected persons are informed with respect thereto. Further, pursuant to the Governing Documents, Agent or its agents shall enter into any dwelling unit at any time in the event of any emergency involving illness or potential danger to life or property, if, in Agent's discretion, Agent or its agents could assist in alleviating such emergency. Any such right of entry shall be exercised in such a manner as to avoid any unreasonable or unnecessary interference with the possession, use and/or enjoyment of the owner or his or her invitees of the Unit in question.

(6) Inventory. Agent shall cause an inventory of all property of Owner to be taken not less frequently than annually.

(d) Enforcement Duties. Agent shall take all measures reasonably necessary, but within any cost limitations which may be imposed by the Board, to enforce the provisions of the Governing Documents.

(e) Member Relations. Agent shall design and maintain a customer service quality check program to insure that services are being delivered to the members in accordance with the terms and spirit of this Agreement and shall periodically brief Owner, or upon request by the Board, on the results of this program.

(f) Other Duties. Except as limited by Paragraph (g) below, Agent shall do all other things or acts, within the scope of its authority as manager of the Project, as it deems necessary, desirable, helpful and/or proper in connection with the administration and management of the Project and take such action as may be necessary to comply promptly with any and all orders or requirements affecting the Project issued or imposed by any federal, state, county, or municipal authority or other regulatory body having jurisdiction thereover. Agent shall promptly notify Owner in writing of all such orders and notices of requirements not later than the next Board meeting of Owner from the time of their receipt. Agent, however, shall not take any action under this Paragraph so long as Owner is contesting, or has affirmed its intention to contest any such order or requirement, except at the direction of Owner. Nothing herein shall require Agent to

make any additional improvements to the Project not authorized in the Budget or an amendment thereto.

(g) Limitation on Powers of Agent. Notwithstanding the powers and duties of Agent as set forth in Sections this Article 2, Agent shall not enter into any contract:

(i) with a third party whereby such third party will furnish goods or services to the Project or Owner for a term longer than one (1) year, unless the contract is terminable by any party thereto at the end of any one (1) year period, or unless such a contract has been authorized by the affirmative vote or written consent of the Board;

(ii) except in the case of emergencies, in the name of Owner for goods or services not contemplated by the Budget or for amounts in excess of those specified in the Budget, unless the Board shall consent thereto in writing; or

(iii) any Affiliate of Agent, unless such a contract has been authorized by the affirmative vote or written consent of the Board.

(iv) Agent has identity of interest companies such as real estate sales, escrow and mortgage firms. Agent will maintain a professional and “arms length” relationship with its identity of interests companies whenever Agent is conducting business on the behalf of Owner. Agent shall comply at all times with its fiduciary duties as agent of Owner when dealing with its Affiliates or other identity of interest companies. Agent represents and warrants to Owner that it has not received, and covenants that it will not receive, any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment from any person or entity regardless of form, whether in money, property, or services (i) to obtain favorable treatment in securing business to perform services, (ii) to pay for favorable treatment for business secured, (iii) to obtain special concessions or for special concessions already obtained, or (iv) to otherwise secure the right or ability to secure business, for or in respect of any service to be provided to or for the benefit of Owner or any of its Members, Qualifying Residents, Co-occupants or guests (as defined in the Bylaws).

(h) Delegation of Duties. It is expressly intended and understood that all duties of Agent under this Agreement shall be freely delegable by Agent and that where Agent’s duties are described herein (such as to act, supervise, direct, provide, administer, manage or operate, by way of example and not limitation), such duties shall be deemed to mean that Agent shall be required to “cause” to act, supervise, direct, provide, administer, manage or operate.

(i) Employees. On the basis of the Budget and plan of operation as hereinafter described, Agent shall hire or retain in its own name (except as Owner and Agent otherwise may agree in writing from time to time) all employees and independent contractors necessary to render services and perform duties as provided in this Agreement. Owner’s share of Salaries of said employees payable by Agent, and Owner’s share of reasonable salary related expenses incurred by Agent in connection with employment of said employees, may be paid directly by Agent in accordance with the Budget out of the bank accounts of Owner as provided in this Agreement. Nothing contained in this Agreement shall create any employer-employee relationship between Owner and any employee of Agent. In addition to salary related expenses noted above and any

other indemnification provisions herein, Owner agrees to reimburse Agent for all reasonable costs and pay all reasonable obligations Agent incurs on behalf of Agent's employees at the Project, including but not limited to, such benefits as health/life insurance, contributions to 401(k) and other retirement plans, benefits negotiated under collective bargaining agreements, pension plans, workers compensation insurance, etc., as provided in the Budget in accordance with the terms of this Agreement. Agent shall cause any and all persons or firms hired or retained to provide services under this Agreement who handle money or other personal property of Owner to furnish a fidelity bond for the benefit of Owner as provided in paragraph (b)(ii) above.

(i) Independent Contractor. It is expressly agreed that Agent is acting as an independent contractor in performing its duties pursuant to this Agreement. Accordingly, Agent and Owner agree and recognize that each of the following shall define and govern their relationship for the Term of this Agreement, notwithstanding any separate obligation of Owner to reimburse or pay the cost of expenses provided in this Agreement:

(1) Benefits. As neither Agent nor any of its employees is an employee of Owner, Agent agrees that Agent shall be solely responsible for any vacation, sick pay, retirement, profit-sharing, bonuses, training, insurance premium payments, reimbursement of gasoline, or any other employee benefit in respect of Agent's services.

(2) Payment of Taxes and Indemnification. Agent acknowledges that Agent shall be solely responsible for the payment of federal and California income taxes, FICA, federal and state unemployment insurance contributions and State Disability Insurance premiums, and Agent hereby agrees to indemnify Owner fully for any such taxes for which Owner is held liable by reason of any re-characterization of Agent or any of Agent's employees as an employee of Owner by any taxing authority, including but not limited to, employer's share of FICA.

(3) Insurance. It is Agent's responsibility to provide Agent's own worker's compensation, comprehensive liability and auto insurance coverage to the extent required by law. In connection with its comprehensive general liability policy, Agent agrees to name Owner as an additional insured and will further provide Owner with an endorsement naming Owner as an additional insured upon request. This responsibility shall extend not only to Agent, but to any and all assistants, independent contractors, employees or agents Agent may hire or utilize to assist it in the performance of this Agreement.

(4) Agent's Methods. Agent will determine the method, details, and means of performing the duties. Nothing in this Agreement shall be construed to interfere with or otherwise affect the rendering of duties by the Agent in accordance with its independent and professional judgment. Agent shall perform its duties in accordance with all requirements of applicable law and substantially in accordance with generally accepted practices and principles of its trade. This Agreement shall be subject to the rules and regulations of any and all organizations and associations to which the Agent may from time to time belong and to the laws and regulations governing the practice accounting.

(5) Licenses. Agent and its employees will maintain all licenses required by law for the performances of any services it may perform under this Agreement

including, to the extent applicable, a valid driver's license, a business license and a contractor's license.

(ii) Salary Expense Controls. At the discretion of GRF, Agent shall arrange a meeting with all LWV corporation's board of directors, including the Board, to explain the range of salaries and benefits for each group of employees, Agent's competitive position as to hiring and retaining employees most beneficial to Agent's performance of its duties hereunder. Individual salaries will not be discussed at this presentation.

(iii) Staff Consulting. When planning organizational changes at the executive or director level, the General Manager shall consult with the Human Relations Committee or its successor, composed of the presidents (or at the discretion of the boards of directors of the LWV corporations, other officers or directors) of the four LWV corporations prior to effecting any changes.

(j) Except as set forth in Article 4 below, all services performed by Agent under the provisions of this Article 2 shall be at the expense of Owner.

(k) Agent shall not be required to make any advance to or for the account of Owner or to pay any sum, except out of monies held or provided pursuant to this Agreement, nor shall Agent be obliged to incur any liability or obligation under this Agreement without assurance that the necessary monies for the discharge thereof will be provided.

(l) A performance evaluation of Agent and review of the Management Agreement shall be conducted in September of each year by the Presidents of the four LWV corporations.

(m) An operational audit of Agent may be conducted annually by or at the direction of the Board.

ARTICLE 3. Harassment Policy. It is Owner's policy that all of Owner's property owners, residents, employees and independent contractors have a right to work in an environment free of unlawful discrimination, which includes freedom from harassment -- whether that harassment is based on sex, age, race, national origin, religion, sexual orientation, marital status, or membership in other protected groups. Owner prohibits unlawful harassment of and by its employees and its independent contractors, including the Agent herein, in any form. Such conduct may result in the termination of this Agreement if the Agent harasses residents, property owners, employees or other independent contractors. If the Agent or any of its employees or contractors believes that it has been unlawfully harassed, either by actions or words, by an employee, independent contractor, customer, potential customer, supplier, vendor or other third party doing business with Owner or someone in a supervisory capacity of Owner, or if it or any of its employees or contractors has witnessed unlawful harassment, or reasonably believes that such conduct has occurred between or among such persons, Agent has a responsibility to report the situation as soon as possible. Such report should be made to the Board. Agent shall report inappropriate conduct without fear of reprisal. Owner will not tolerate any reprisals, harassment or any other form of retaliation against an employee or independent contractor for reporting an allegation of unlawful harassment. Agent

shall implement adequate policies and training to prevent unlawful discrimination and harassment of and by its employees and agents.

ARTICLE 4. Overhead. The overhead expenses of Agent shall be paid by Agent without right of reimbursement. Said expenses shall include.

(a) Salary and salary related expenses of the General Manager.

(b) Salaries, salary related expenses, office expenses and other expenses of officers and employees of Agent who are not employed exclusively in work for Owner and the other LWV corporations.

ARTICLE 5. Fee. Agent shall be paid, as its sole compensation for all services performed hereunder, a fee payable in advance on the first day of each month in an amount, exclusive of all surcharges, determined on the basis of the total number of Units in Owner under management by Agent as of the last day of the preceding month as follows:

(a) Said fee shall consist of a monthly charge in the amount of \$\_\_\_\_\_ per Unit.

(b) Said fee shall be adjusted annually for each succeeding year by the same percentage as the All Urban Consumer Price Index (CPI) of the United States Bureau of Labor Statistics for the Los Angeles-Long Beach-Anaheim Metropolitan Area. Such annual re-computation shall be based on the July to June CPI increase or decrease, but not to exceed eight percent (8%). Should the variation in the CPI exceed eight percent (8%), the fee set herein shall be reopened automatically and subject to re-negotiations. Such fee adjustments shall be budgeted and become effective as of January 1 of the succeeding year.

ARTICLE 6. Expense Reduction. Agent shall maintain an ongoing net expense reduction incentive program (the "***Expense Reduction Program***") for all divisional operations as the means for reducing the assessments of the Units without compromising service levels. This program may be administered as part of a larger program implemented with other LWV corporations. A monthly Expense Reduction Program meeting shall be held represented by the General Manager and a committee designated by the Board; wherein, the purpose is to communicate the Agent's accomplishments inclusive of any financial savings, when applicable for the month, plus objectives, proposed ideas and actions to be taken for the subsequent month(s). To insure the success of the Expense Reduction Program, Agent shall be paid, in addition to the Fee provided in Article 5, a portion of the effective net savings from the program as an incentive fee intended to be distributed to Agent's employees as a bonus, in accordance with the terms and conditions of the Expense Reduction Program to be approved by the Board and affixed to this Agreement an Attachment A.

ARTICLE 7. Term. The term of this Agreement shall commence on January 1, 2007, and remain in effect until December 31, 2011, unless sooner terminated pursuant to this Article. The term of this Agreement shall be automatically extended until December 31, 2012, upon the same terms and subject to the same conditions, unless either party elects not to renew by delivering written notice of such election to the other party no later than June 30, 2011.

(a) Any party not in default under this Agreement may elect to terminate this Agreement, without cause, upon not less than one hundred eighty (180) days prior written notice to the other party with a copy of such notice to each of the Consenting Parties. Such termination shall become effective as of 11:59 p.m. on the date specified in the written notice or, if no such date is specified, on the last day of the month in which the expiration of the one hundred eighty (180) days occurs.

(b) Upon the occurrence of any of the following events, either party may elect to terminate this Agreement, upon written notice to the other party, effective as of the date on which such election is made.

(i) Either Owner or Agent admits its inability to pay its debts as they mature, or makes an assignment for the benefit of its creditors, or applies for or consents to the appointment of any receiver, trustee or similar officer for itself or for all or a substantial part of its property.

(ii) Either Owner or Agent files a petition in bankruptcy or for an arrangement or for reorganization pursuant to the Federal Bankruptcy Act or any similar law, federal or state, or the adjudication of Owner or Agent as a bankrupt or insolvent by a decree of a court of competent jurisdiction.

(iii) The creditors of Owner or Agent file a petition in bankruptcy against Owner or Agent or for the reorganization of Owner or Agent pursuant to the Federal Bankruptcy Act or any similar law and the same is not discharged within sixty (60) days after the date of filing.

(c) This Agreement may be terminated, with or without cause by HUD or any Mortgagee, upon written notice to Owner and Agent. Such termination shall become effective at 11:59 p.m. on the date specified in the written notice from HUD, which date shall be at least thirty (30) days after the date on which such notice is given. No liability shall be incurred by HUD in the event of such termination.

(d) Upon any termination under this Article, Owner and Agent shall account to each other with respect to all matters outstanding as of the date of termination, and an audit of the books of account and records of Owner shall be conducted, at the expense of Owner, by a certified public accountant who shall furnish a financial report to Owner and such other reports and supplementary information as may be required by Owner. On the effective date of any termination hereunder, or sooner if Owner so directs, Agent shall deliver to Owner all property (including, without limitation, automobiles and office furnishings and equipment and all property acquired pursuant to this Agreement), books and records in Agent's possession or under its control relating to the management and operation of the property.

#### ARTICLE 8. Miscellaneous.

(a) Subordination. This Agreement is made subject and subordinate to all rights of HUD as insurer of the mortgage, shall inure to the benefit of and constitute a binding obligation upon the contracting parties, their respective successors and assigns; and to the extent that it confers rights, privileges, and benefits upon the Consenting Parties, the same shall be deemed to

inure to their benefit, but without a liability to either, in same manner and with the same force and effect as though the Mortgagees and HUD were signatories to this Agreement.

(b) Merger/Amendment. This Agreement shall constitute the entire agreement between the contracting parties and supersedes all prior agreements between the parties hereto respecting such matters, and no variance or modification thereof shall be valid and enforceable, except by supplemental agreement in writing, executed and approved in the same manner as this Agreement.

(c) Indemnification. Owner hereby agrees to defend, indemnify and hold harmless Agent and its employees, agents, officers and directors (the “*Indemnified Parties*”) against any and all claims, suits, damages including attorneys' fees (collectively, “*Claims*”) arising out of the performance of this Agreement with respect to Agent's management of property for those acts performed within the scope of its authority, provided however that this indemnity shall be void and of no effect as regards to (i) legally prohibited acts of discrimination or discriminatory conduct, (ii) sexual harassment committed by its employees, officers or agents, or (iii) willful misconduct or gross negligence of any Indemnified Party. Agent will promptly notify Owner in writing of any and all such claims that may be subject to the indemnification provisions of this section. Owner will have the right to assume the defense of the Claim with counsel of its choice reasonably satisfactory to the Indemnified Party at any time within 30 days after the Indemnified Party has given notice of the Claim; *provided, however*, that Owner must conduct the defense of the Claim actively and diligently thereafter in order to preserve its rights in this regard; and *provided further* that the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Claim. This indemnification shall survive expiration or termination of this Agreement.

(d) Section Headings. The section headings herein contained are for the purposes of identification only and shall not be considered in construing this Agreement

(e) Attorney Fees and Expenses. Should legal action or arbitration be necessary to enforce or interpret any of the provisions of this Agreement, the prevailing party in such action or arbitration shall be entitled to all costs and expenses, including without limitation, expert witness fees and reasonable attorneys' fees incurred therein.

(f) Singular and Plural. The singular number includes the plural whenever the context so requires.

(g) Severability. If any part, clause or phrase hereof is ruled invalid or unenforceable by any court having competent jurisdiction hereover, then the balance of this Agreement shall remain in full force and effect in all its remaining provisions without being impaired or invalidated in any way. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

(h) Force Majeure. Neither party shall be liable for any delay or other inability to perform this Agreement attributable to and during a Force Majeure Event. The parties acknowledge that the effects of a Force Majeure Event may exist and continue for a period of time that exceeds the precipitating Force Majeure Event. “*Force Majeure Event*” shall mean any act

occasioned by a cause beyond the reasonable control of Agent or Owner, including (but not limited to) acts of God, fire, explosion, casualties, war, insurrection, strikes, lockouts, riot, mob violence, sabotage, inability to procure labor, equipment, facilities, materials or supplies in the open market, civil unrest and governmental actions, travel advisories issued by governmental authorities, revolution, insurgency, terrorism, sabotage, hurricanes, earthquakes or other natural catastrophes and any other causes, whether similar or dissimilar to the foregoing, that threaten public safety generally. Owner and Agent agree to adopt and enforce reasonable rules to prevent any Member, Qualifying Resident, Co-Occupant or guest (as defined in the Bylaws) and directors of Owner from unreasonably interfering with work of Agent conducted pursuant to and in accordance with this Agreement.

(i) Governing Law. This Agreement shall be governed by the laws of the State of California.

(j) Third Party Beneficiaries. The provisions of this Agreement are solely for the benefit of the parties hereto and nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies under or by reason of this Agreement.

(k) Assignment. Neither party may sell, transfer or assign any of its interest in this Agreement without the prior written consent of the other party. Subject to the foregoing, this Agreement will inure to the benefit of, and be binding upon, any permitted successors and assigns of the parties.

(l) No Partnership. This Agreement does not and shall not be construed to create a partnership, joint venture or any other relationship between the parties hereto except the relationship of providing management services specifically established hereby.

(m) Counterparts. For the convenience of the parties, this Agreement may be executed in several counterparts, which are in all respects similar and each of which shall be deemed to be complete in itself so that any one may be introduced in evidence or used for any other purpose without the production of the other counterparts. Immediately following endorsement of the parties hereto, counterparts will be furnished to the parties and the Consenting Parties so that each may be advised of the rights, privileges, and benefits which this Agreement confers.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

Dated: \_\_\_\_\_

UNITED LAGUNA HILLS MUTUAL

By: \_\_\_\_\_  
Print name: \_\_\_\_\_  
Its: President

PROFESSIONAL COMMUNITY MANAGEMENT, INC.

By: \_\_\_\_\_  
Print name: \_\_\_\_\_  
Its: \_\_\_\_\_

Approved as to Form:

ATTEST

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS

By: \_\_\_\_\_  
Print name: \_\_\_\_\_  
Its: Treasurer