

• INDEX

BYLAWS OF WATERFORD HOMEOWNERS
ASSOCIATION, INC.

<u>ARTICLE NO.</u>		<u>PAGE NO.</u>
	INTRODUCTION	i
I	NAME, SEAL AND OFFICES	1
II	DEFINITIONS	1
III	MEMBERSHIP	3
IV	PROPERTY RIGHTS AND RIGHTS OF ENJOYMENT OF COMMON PROPERTIES	4
V	PURPOSE AND POWERS	4
VI	MEMBERS	6
VII	BOARD OF DIRECTORS	8
VIII	OFFICERS	13
IX	COMMITTEES	14
X	OPERATION OF THE PROPERTIES	15
XI	USE OF THE PROPERTIES	18
XII	MORTGAGES	21
XIII	INSURANCE	21
XIV	DAMAGE TO OR DESTRUCTION OF PROPERTY	24
XV	RECORDS	26
XVI	PROXIES	26
XVII	MISCELLANEOUS	27
XVIII	INVALIDITY, CONFLICT AND WAIVER	27
XIX	AMENDMENTS TO BYLAWS	28

BYLAWS **OF**
WATERFORD HOMEOWNERS ASSOCIATION, INC.

INTRODUCTION

The Bylaws are the corporate operating charter of the Association. The fundamental assets and obligations of the Association are the Common Properties, the income from assessments, and the operating responsibilities to WATERFORD HOMEOWNERS ASSOCIATION, INC. and its Owners.

The Bylaws are a part of the contract entered into by the Lot Owners, with and for the benefit of all other Owners acting through the Association. This contract is automatically incorporated into the deed by the act of accepting ownership **of** a Lot. Therefore, the Bylaws are a part of the mandatory regime **of** the Association.

The Association is incorporated under the non-profit corporation law of the State of North Carolina, and follows its requirements. The Bylaws provide that the management of the Association is completely under the control of the Board of Directors. The Board provides for general guidance and policy and chooses the officers.

Note especially the fact that ARTICLE IX of these Bylaws provides for committees. The active participation **of** as many Owners as possible is the best way to provide for a successful community. It also keeps costs down and the quality of amenities and programs up, by providing volunteer administrative assistance in attending to the myriad details **of** daily operation. **Look** over the list, volunteer for a committee and become a part, as well as **a** member, **of** the WATERFORD HOMEOWNERS ASSOCIATION, INC.

ARTICLE XII on Mortgages, and ARTICLE XIII covers Insurance. Generally, owners should obtain their own homeowner's policy covering their Lot, any improvements made by each Owner thereon and their personal contents. The Lot Owners' homeowners policy then will dovetail into the Association's liability and casualty coverage which covers all Common Properties and any improvements constructed by the Association or the Developer (the Developer has no obligation to construct any improvement, other than paved roads).

WATERFORD HOMEOWNERS ASSOCIATION, INC. will be similar to a small municipality. The assembling of people and their activities together require a great deal of detailed organization to avoid conflicts with a minimum **of** interference from people of differing personalities. It is hoped that the system established in WATERFORD HOMEOWNERS ASSOCIATION, INC. will minimize disruption and difficulties, to the end that Waterford with your help and participation will become **a** fine and delightful place to live.

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BYLAWS
OF
WATERFORD HOMEOWNERS ASSOCIATION, INC.

ARTICLE I
NAME, SEAL AND OFFICES

SECTION 1. Name: The name of this corporation is WATERFORD HOMEOWNERS ASSOCIATION, INC. ("the Association").

SECTION 2. Seal: The seal of the Association shall be circular in form and shall bear the words 'CORPORATE SEAL'. The Board of Directors may change the form of the seal or the inscription thereon at its pleasure.

SECTION 3. Offices: The principal office of the Association shall be at the Management Offices of Waterford Homeowners Association, Inc. in North Carolina, or at such other place as the Board of Directors may from time to time designate.

ARTICLE II
DEFINITIONS

SECTION 1. Plan of Ownership: The real properties located in County of Forsyth, and State of North Carolina, as shown on a certain map entitled WATERFORD Section One, have been submitted to the provisions of a certain Declaration of Covenants, Conditions and Restrictions, dated April 29, 1985 (the "Declaration"), by the Developer and will be subdivided into Lots and Common Properties in accordance with such map, creating a system of ownership of the Lots by individual Owners, each Lot having a non-exclusive easement of enjoyment over the Common Properties (except as may be limited in the Declaration or noted on any recorded plat of The Properties), and each Lot being subject to a reciprocal obligation to contribute assessments for the maintenance and operation of the Common Properties and certain exterior improvements on the Lots all in accord with the Declaration. The Plan of Ownership will be extended to additional units by the submission of any additional real property by supplemental Declarations of Covenants, Conditions and Restrictions in accordance with the Declaration.

SECTION 2. Applicability of Bylaws: The provisions of these Bylaws are applicable to The Properties and to the use and occupancy thereof.

SECTION 3. Personal Application: All present and future Lot Owners, trust beneficiaries, mortgagees, lessees, and occupants of the Lots and their employees, and any other person who may use any portion of The Properties in any manner are subject to these Bylaws, the Declarations, and to the Rules and Regulations established by the Board of Directors as hereinafter set forth. The acceptance of a deed or conveyance or the entering into a lease or the act of occupancy of a Lot shall constitute an agreement that

these Bylaws, the Rules and Regulations, and the provisions of the Declaration, as they may be amended from time to time, are accepted, ratified, and will be complied with.

SECTION 4. Other Definitions: The following words when used in the Declaration, any amended or supplemental Declaration or these Bylaws or any amendment hereto (unless the context shall require otherwise) shall have the following meanings:

(a) "Assessments" or "assessments" or "Common Charges" shall mean and refer to the assessments and charges levied against the Owners of Lots in The Properties, as hereinafter defined, pursuant to Article Seven of the Declaration and Article X of these Bylaws; and the words assessments or Assessment shall be and mean the same thing as Common Charges.

(b) "Association" shall mean and refer to the Waterford Homeowners Association Inc.; and "Bylaws" shall mean and refer to the Bylaws of the Association.

(c) "Board" shall mean and refer to the Board of Directors of the Waterford Homeowners Association, Inc.

(d) "Common Expense" shall mean and refer to:

(i) Expense of administration, maintenance, repair or replacement of the Common Properties.

(ii) Expense declared Common Expense by the provisions of the Declaration or these Bylaws.

(iii) Expense agreed upon as Common Expense by the Association and lawfully assessed against Owners of Lots in accordance with these Bylaws or the Declaration.

(iv) Any valid charge against the Association or against the Common Properties as a whole.

(v) The expenses and costs incurred (or a pro rata portion thereof if shared by others) in the use, operation, repair, replacement and maintenance of (aa) the waste water treatment facility (the "Plant") servicing but not located within The Properties, and (bb) the pump station (located within The Properties) and sewer collection lines (located within and outside The Properties) .

(e) "Common Properties" shall mean and refer to those areas of land shown on any recorded subdivision plat of The Properties labeled as "Common Properties" or "Recreational Area" or shown as streets or roads or such other areas specifically designated as "Common Properties" by deed from the Developer to the Association and as such intended to be devoted to the common use

and enjoyment of the Owners of the Lots, subject to special rights, if any, granted Owners of particular Lots, which are a part of The Properties.

(f) The "Developer" shall mean and refer to a North Carolina General Partnership, Vanguard Properties, and any person or entity who is specifically assigned all or a portion of the rights and interest of Developer hereunder.

(g) "Living Area" shall mean and refer to those heated and/or airconditioned areas within a Living Unit which shall not include garages, carports, porches, patios, storage areas, breezeways, terraces, or unfinished basements.

(h) "Living Unit", "dwelling", or "building" shall mean and refer to any building or portion of a building, situated upon any Lot, which is a part of The Properties, designed and intended for use and occupancy as a residence by a single family.

(i) "Lot" shall mean and refer to any plot of land within The Properties shown upon any recorded subdivision map of The Properties, or any portion thereof, with the exception of Common Properties as heretofore defined.

(j) "Member" shall mean and refer to all those Owners who are members of the Association as provided in Article Five, Section 1, of the Declaration.

(k) "Owner" shall mean and refer to the record owner, whether one or more persons or entities, of the fee simple title to any Lot situated upon The Properties, but notwithstanding any applicable theory of any lien or mortgage law, shall not mean or refer to any mortgagee or trust beneficiary unless and until such mortgagee or trust beneficiary has acquired title pursuant to foreclosure or any proceeding in lieu of foreclosure.

(l) "The Properties" shall mean and refer to all the Existing Property and any additional units of Developer or others as are made subject to the Declaration by any Supplemental Declaration under the provisions of Article One of this Declaration.

ARTICLE III MEMBERSHIP

SECTION 1. Members. Every person who is a record Owner of a fee or undivided fee interest in any Lot shall be a Member of the Association pursuant to ARTICLE FIVE of the Declaration with the limitations and voting powers therein.

SECTION 2. Assessments. The rights of membership are subject to the payment of annual and special assessments levied by the Association, the obligation of which assessments is imposed against each Owner, of, and becomes a lien upon, the property against

which such assessments are made and the personal obligation of the then Member as provided by ARTICLE SEVEN of the Declaration pursuant to the terms therein.

SECTION 3. Suspension of Membership. The membership rights of any Member whose membership or interest in the Properties is subject to assessments under ARTICLE SEVEN of the Declaration, whether or not he be personally obligated to pay such assessments, may be suspended by action of the Directors during the period when the assessments remain unpaid, but, upon payment of such assessments, his rights and privileges shall be automatically restored. If the Directors have adopted and published rules and regulations governing the use of the Common Properties as provided in ARTICLE XI, Section 3 herein, the Directors may, in their discretion, suspend the rights of any such person for violation of such rules and regulations for a period not to exceed thirty (30) days, in addition to levying the liquidated charges provided by ARTICLE XI, Section 4 herein.

ARTICLE IV
PROPERTY RIGHTS AND RIGHTS OF ENJOYMENT
OF COMMON PROPERTIES

SECTION 1. Each Member shall be entitled to the use and enjoyment of the Common Properties and facilities as provided by deed of dedication and ARTICLE SIX of the Declaration.

SECTION 2. Any Owner may share his rights of enjoyment in the Common Properties with the members of his family who reside upon The Properties or delegate said rights to any of his tenants who reside thereon, under any leasehold interest or rental agreement. Such Owner shall notify the secretary of the Association in writing of the name of any such tenant together with a copy of said lease. The rights and privileges of such persons are subject to suspension under ARTICLE 111; Section 3, herein, to the same extent as those of the Member.

ARTICLE V
PURPOSE AND POWERS

The Association shall operate on a not-for-profit basis in accordance with its Articles of Incorporation. The Association will not provide pecuniary gain or profit, direct or indirect, to its Members. The purposes for which it is formed are:

SECTION 1. General: To promote the health, safety, and welfare of the residents within The Properties, and such additions thereto as may hereafter be brought within the jurisdiction of this Association by annexation as provided in ARTICLE ONE, Section 2, of the Declaration, and for this purpose to:

(a) Own, acquire, build, operate, use and maintain any roads, utilities, (including, but not limited to, a pump station

and sewage collection lines), recreation parks, trails, parking lots, open space, pools, tennis courts, boardwalks, lakes, docks, piers, clubhouses, streets, footways, including building structures, personal properties incident thereto, any and all of which is hereinafter referred to as the "Common Properties"; (b) provide exterior maintenance for the Lots and Living Units within The Properties in order to maintain the character **of** The Properties for the mutual benefit of all the Owners; (c) provide garbage and trash collection; (d) provide security protection; (e) maintain unkempt lands or trees; (f) supplement municipal services; (g) fix Assessments or Common Charges to be levied against The Properties; (h) enforce any and all covenants, restrictions and agreements applicable to The Properties; (i) pay taxes, if any, on the Common Properties; (j) provide recreational facilities and services to its Members subject to the payment of fees therefor (limited to any extra burden imposed by specific requirements of individual users of the facilities) and (k) insofar as permitted by law, to do any other thing that, in the opinion **of** the Board of Directors, will promote the common benefit and enjoyment of the residents of The Properties.

SECTION 2. Dispose of Assets: To mortgage, pledge, hypothecate or otherwise grant any form of security interest in and to its properties or accounts receivable, to dispose **of** its assets, provided that upon dissolution, the assets shall be dedicated to an agency or utility to be devoted to purposes, as nearly as practicable, the same as those to which they were required to be devoted by the Association. In the event that such dedication is refused acceptance, such assets shall be granted, conveyed and assigned to any nonprofit corporation, association, trust or other organization to be devoted to purposes as nearly as practicable the same as those to which they were required to be devoted by the Association. No such disposition of Association properties shall be effective to divest or diminish any right or title of any Member vested in him under the recorded covenants and deeds applicable to The Properties unless made in accordance with the provisions of such covenants and deeds.

SECTION 3. Additions to The Properties and Memberships: Additions to The Properties described in ARTICLE ONE **of** the Declaration may be made only in accordance with the provisions of the recorded covenants and restrictions applicable to The Properties. Such additions, when properly made in the applicable covenants, shall extend the jurisdiction, functions, duties, and membership of this Association to such properties.

SECTION 4. Mergers and Consolidations: Subject to the provisions of the recorded covenants and restrictions applicable to the properties described in ARTICLE ONE of the Declaration, and to the extent permitted by law, the Association may participate in mergers and consolidations with other nonprofit corporations organized for the same purposes, provided that any such merger or consolidation shall have the assent **of** two-thirds (2/3) **of** the votes **of** each

class of members eligible to vote who are voting in person or by proxy at a meeting duly called for this purpose, written notice of which shall be mailed to all members at least thirty (30) days in advance and shall set forth the purpose of the meeting.

SECTION 5. Mortgages: Other Indebtedness. The Association shall have the power to mortgage or grant deeds of trust (hereinafter referred to as "mortgages") on the Common Properties only to the extent authorized in this Section 5.

The total debts of the Association including the principal amount of such mortgages, outstanding at any time, shall not exceed the total of two (2) years' annual Assessments established at that time, provided that authority to exceed said maximum in any particular case may be given by an affirmative vote of two-thirds (2/3) of the votes of each class of members who are voting in person or by proxy at a meeting duly called for this purpose, written notice of which shall be mailed to all Members at least thirty (30) days in advance and shall set forth the purpose of the meeting .

SECTION 6. Dedication of Properties or Transfer of Function to Public

Agency or Utility:

The Association shall have power to dispose of the Common Properties only as authorized under the recorded covenants and restrictions applicable to said properties.

SECTION 7. Dissolution: The Association may be dissolved only with the assent given in writing and signed by the Members entitled to cast two-thirds (2/3) of each class of its membership eligible to vote. Written notice of a proposal to dissolve, setting forth the reasons therefor and the disposition to be made of the assets (which shall be consonant with ARTICLE V, Section 8 hereof) shall be mailed to every Member and mortgagee at least ninety (90) days in advance of any action taken.

SECTION 8. Disposition of Assets Upon Dissolution: Upon dissolution of the Association, the assets, both real and personal of the Association, shall be dedicated to an appropriate public agency or association to be devoted to purposes as nearly as practicable the same as those to which they were required to be devoted by the Association.

ARTICLE VI MEMBERS

SECTION 1. Eligibility: Membership in the Association shall be in accordance with ARTICLE FIVE of the Declaration.

SECTION 2. Voting: Voting shall be in accordance with ARTICLE FIVE of the Declaration. A majority of the total votes cast at a

meeting at which a quorum is present shall be binding upon all Owners for all purposes except when a higher percentage is required by these Bylaws, the Declaration or by law.

SECTION 3. Votes in the Event of Multiple Ownership of a Lot: In the event a Lot is owned by more than one person, if such persons cannot agree upon the exercise of their right to vote pursuant to these Bylaws, each person shall have a fractional vote based upon his fractional share of ownership of the Lot. A co-owner of a Lot may permit the other co-owner of the Lot to vote his interest by furnishing the other co-owner with a proxy. In the absence of any co-owner, a vote for a whole lot cast by a co-owner shall be held to be by valid proxy of the absent co-owner, unless challenged at the time the vote is cast.

SECTION 4. Annual Meetings: Annual meetings shall be held on the third Saturday in April of each year. At each annual meeting, there shall be elected by ballot of the Owners, a Board of Directors in accordance with the provisions of ARTICLE VII Section 1 herein, and Members may also transact such other business as may properly come before them.

SECTION 5. Place of Meetings: Meetings of the Members shall be held at the principal office of the Association or such other suitable place convenient to the Members as may be designated by the President.

SECTION 6. Special Meetings: It shall be the duty of the President to call a special meeting of the Members when so directed by resolution of the Board of Directors, or, upon petition signed by not less than 25% of the aggregate of Members. The notice of any special meeting shall state the time and place of such meeting and the purpose thereof. No business shall be transacted at a special meeting except as stated in the notice.

SECTION 7. Notice of Meetings: It shall be the duty of the secretary to mail a notice of each annual or special meeting of the Members, at least ten (10) days but not more than fifty (50) days prior to such meeting, stating the purpose thereof as well as the time and place where it is to be held, to each Member as recorded on the records of the Association, at the Lot address or at such other address as such Member shall have designated by notice in writing to the secretary. The mailing of a notice of meeting in the manner provided in this section shall be considered service of notice.

SECTION 8. Waiver of Notice: Any Member may at any time waive notice of any meetings of the Members in writing, and such waiver shall be deemed equivalent to the giving of such notice. Presence by a Member at the meeting will be considered a waiver of the right to such notice.

SECTION 9. Order of Business: The order of business at all meetings of the Members shall be as follows, to the extent required:

- (a) Roll Call.
- (b) Proof of notice of meeting or waiver of notice.
- (c) Reading of minutes of preceding meeting.
- (d) Reports of officers.
- (e) Report of Board of Directors.
- (f) Report of Committees.
- (g) Election of members of the Board of Directors.
- (h) Unfinished business.
- (i) ~~New~~ business.
- (j) Adjournment.

SECTION 10. Parliamentary Procedure: At all meetings of the Members, or of the Board of Directors, Roberts' Rules of Order, as to such date amended, shall be followed, except in the event of conflict, these Bylaws or Declaration, as the case may be, shall prevail.

SECTION 11. Quorum: A majority of the Members present, in person or by proxy, shall constitute a quorum at any meeting of the Members.

SECTION 12. Proxies: Votes may be cast in person or by proxy. A Member may designate any person, who need not be a Member, to act as proxy. The designation of any such proxy shall be made in writing, signed by the Member, and shall be revocable at any time by written notice to the secretary by the Member designating the proxy.

ARTICLE VII BOARD OF DIRECTORS

SECTION 1. Function, Number and Qualification: The affairs of the Common Properties, and appurtenant duties on the Lots shall be operated by the Association, which in turn shall be governed by a Board of Directors (not more than five (5) in number), who need not be Members of the Association. Unless the Members shall otherwise determine at a meeting duly noticed, the Board of Directors shall consist of three (3) directors who shall hold office until the election of their successors. Each of the initial directors shall have one (1) vote. Beginning with the first annual meeting to be held in April, 1986, the Members shall elect a director for a term of one (1) year, and a director for a term of two (2) years, and a director for a term of three (3) years, and at each annual meeting thereafter, the Members shall elect one (1) director for a term of three (3) years.

SECTION 2. Powers and Duties: The Board of Directors shall have the powers and duties necessary for the administration of the affairs of the Association and shall do all such acts and things as are not by law or by the Bylaws directed to be exercised and

done by the Owners. Such powers and duties of the Board of Directors shall include, but shall not be limited to, the following:

(a) Operation, care, upkeep and maintenance of the Common Properties, and such duties with respect to the Lots as provided in the Declaration.

(b) Determination of an annual budget and the Common Expenses required for the affairs of the Properties.

(c) The establishment, levying, assessment and collection of the Assessments (Common Charges) from the Owners.

(d) The employment and dismissal of the personnel necessary for the maintenance, repair, replacement and operation of the Common Properties.

(e) Opening of bank accounts in the name of the Association and designating the signatories required therefor.

(f) Purchasing or leasing or otherwise acquiring in the name of the Association or its designee, corporate or otherwise, Lots offered for sale or lease, or surrendered by their Owners to the Board of Directors or to the Association.

(g) Purchasing of Lots, including at foreclosure or other judicial sales in the name of the Association, or its designee, corporate or otherwise.

(h) Selling, leasing, subleasing, encumbering, mortgaging, voting the votes appurtenant to (other than for the election of members of the Board of Directors), or otherwise dealing with, Lots acquired by the Association or its designee, corporate or otherwise.

(i) Organizing corporations to act as designees of the Association in acquiring title to or leasing **Lots** on behalf of all Owners.

(j) Granting of licenses over the Common Properties.

(k) Obtaining and maintaining insurance on The Properties, and, designating a commercial bank, insurance company or similar institution with trust powers as Trustee.

(l) Making of repairs, additions and improvements to or alterations to and restoration of The Properties.

(m) Leasing or otherwise acquiring the right to use, either exclusively or in common with others, recreational and other facilities for the benefit of Owners.

(n) Adopting and amending reasonable Rules and Regulations governing the conduct of all people on The Properties and the operation and use of the Properties. The Board shall have the power to levy liquidated damages against the Owners for violation thereof or for violation of any provision of these Bylaws or the Declaration, for which any Owner (or his guests or tenants) is responsible, provided that no such levy may be for more than \$50.00 for any one violation: but for each day a violation continues after notice, it shall be considered a separate violation. Collection of damages may be enforced against the Owner or Owners responsible as if the damages were a Common Charge owed by the particular Owner or Owners.

(o) The Board of Directors may also enforce, by any legal means, the provisions of the Declaration, the Bylaws, and the Rules and Regulations for the use of The Properties.

(p) To appoint and remove at pleasure all officers, agents and employees of the Association, prescribe their duties, fix their compensation, and require of them such security or fidelity bond as it may deem expedient. Nothing contained in these Bylaws shall be construed to prohibit the employment of any Member, Officer or Director of the Association in any capacity whatsoever.

SECTION 3. Management: The Board of Directors may employ or enter into a contract or agreement with a Manager for The Properties, for a period of not more than twelve (12) months with the right of the Association to cancel such contract with thirty (30) days notice for cause, at a compensation or consideration established by the Board to perform such duties and services as the Board shall authorize. The Board of Directors shall send all Owners, Members and First Mortgagees a copy of any such cancellation notice. The Board of Directors may authorize such Manager to perform the duties listed in sub-sections (a), (c), (d), (k), (l), and with respect to all but officers, (p) of Section 2 and other duties consistent therewith, but shall not delegate to the Manager the powers of the Board of Directors set forth in sub-sections (b), (e), (f), (g), (h), (i), (j), (m), (n), and (o) and with respect to officers, (p) of Section 2.

SECTION 4. Removal of Directors: At any time, at any regular or special meeting of the Owners, any one or more of the members of the Board of Directors may be removed with cause by a majority of all of the Owners following notice thereof in the call of the meeting and a successor or successors may then or thereafter be elected to fill the vacancy thus created.

SECTION 5. Vacancies: Vacancies on the Board of Directors caused by any reason other than the removal of a member thereof by a vote of the Owners eligible to vote shall be filled by vote of a majority of the remaining directors at a regular or special meeting of the Board of Directors held promptly after the occurrence of any

such vacancy, even though the directors present at such meeting shall constitute less than a quorum and each person so elected shall be a member of the Board of Directors for the remainder of the term of the director so replaced, and until his successor shall be duly elected.

SECTION 6. Organization Meeting: The first regular meeting of the Board of Directors following a meeting of the Owners at which directors are elected, shall be held within ten (10) days thereafter at such time and place as shall be fixed by the Lot Owners at such meeting. No notice shall be necessary to the members of the Board of Directors in order legally to constitute such a meeting, provided a quorum shall be present at such first regular meeting.

SECTION 7. Regular Meetings: Regular meetings of the Board of Directors may be held at such time and place as shall be determined from time to time by a majority of the directors. Notice of regular meetings of the Board of Directors shall be given by the secretary to each director personally or by mail or telegraph at least three (3) days prior to the day named for the meeting.

SECTION 8. Special Meetings: Special meetings of the Board of Directors may be called by the president on three (3) days' notice to each director, given personally or by mail or telegraph, which notice shall state the time, place and purpose of the meeting. Special meetings of the Board of Directors shall be called by the president or secretary in like manner and on like notice on the written request of at least two (2) directors.

SECTION 9. Waiver of Notice: Any director may at any time waive notice of any meeting of the Board of Directors in writing, and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a director at any meeting of the Board shall constitute a waiver of notice by him of the time and place thereof. If all members of the Board are present at any meeting of the Board, no notice shall be required and any business may be transacted at such meeting.

SECTION 10. Quorum of Board of Directors: At all meetings of the Board of Directors, two-thirds (2/3) of the directors being present shall constitute a quorum for the transaction of business, and the votes of a majority of the directors present shall constitute the decision of the Board of Directors.

SECTION 11. Fidelity Bonds: The Board of Directors shall have the option, but not the obligation to obtain, to the extent reasonably available, for all officers, employees and agents of the Association handling or responsible for Association funds, a fidelity bond in the amount of 150% of anticipated funds to be held by such officers, employees and agents. The premiums on such bonds shall constitute a Common Expense.

SECTION 12. Compensation: No member of the Board of Directors shall receive any compensation from the Association for acting as a director.

SECTION 13. Liability of the Board of Directors: The directors shall not be liable to the Association or to the Members for any mistake of judgment, negligence, or otherwise, except for their own individual willful misconduct or bad faith. The Association shall defend, indemnify and hold harmless, to the extent permitted by law, each of the directors against all liability arising out of their conduct on behalf of the Association, unless such conduct shall have been willful misconduct or in bad faith. It is intended that the directors shall have no personal liability with respect to any contract made by them on behalf of the Association (except as Members). It is also intended that: the liability of any Member arising out of any contract made by the Association or out of the aforesaid indemnity in favor of the Board of Directors shall be limited to his interest in the Common Properties.

SECTION 14. Fiscal Year: The Board of Directors shall establish a fiscal year.

SECTION 15. Fiscal Affairs: It shall be the duty of the Board of Directors:

(a) To cause to be kept a complete record of all its acts and corporate affairs and to present a statement thereof to the Members at the annual meeting of the Members or at any special meeting when such is requested in writing by one-fourth (1/4) of the membership.

(b) To supervise all officers, agents and employees of this Association, and to see that their duties are properly performed.

(c) As more fully provided in ARTICLE SEVEN of the Declaration applicable to The Properties:

(1) To fix the amount of the assessment against each Lot for each assessment period at least thirty (30) days in advance of such date or period and, at the same time;

(2) Cause to be prepared a roster of the Lots and assessments applicable thereto which shall be kept in the office of the Association and shall be open to inspection by any Member or his designee, and, at the same time;

(3) To cause to be sent written notice of each assessment to every Owner subject thereto.

(d) To issue, or to cause an appropriate officer to issue, upon demand by any person a certificate setting forth

whether any assessment has been paid. Such certificate shall be conclusive evidence of any assessment therein stated to have been paid.

ARTICLE VIII OFFICERS

SECTION 1. Designation: The principal officers of the Association shall be the president, the vice president, the secretary, and the treasurer, all of whom shall be elected by the Board of Directors. The president and the vice president shall be elected from among the members of the Board of Directors. The Board of Directors may elect a Treasurer, an Assistant Treasurer, a Secretary, an Assistant Secretary and such other officers as in its judgment may be necessary, who need not be Owners. Any person or officer or employee of a corporate, partnership or fiduciary Owner shall be eligible for such election.

SECTION 2. Election of Officers: The officers of the Association shall be elected annually by the Board of Directors and shall hold office at the pleasure of the Board.

SECTION 3. Removal of Officers: Upon the affirmative vote of a majority of members of the Board of Directors, any officer may be removed, either with or without cause, and his successor elected at any regular meeting of the Board of Directors, or at any special meeting of the Board called for such purposes.

SECTION 4. President: The President shall be the chief executive officer of the Association. He shall preside at all meetings of the Members and of the Board of Directors. He shall have all the general powers and duties which are usually vested in the office of president of a corporation, organized under the laws of the State of North Carolina, including but not limited to the power to appoint committees from time to time as he may, in his discretion, decide is appropriate to assist in the conduct of the affairs of the Association.

SECTION 5. Vice President: The vice president shall take the place of the president and perform his duties whenever the president shall be absent or unable to act. If neither the president nor the vice president is able to act, the Board of Directors shall appoint some other member of the Board to act in the place of the president on an interim basis. The vice president shall also perform such other duties as shall, from time to time, be assigned to him by the Board of Directors or by the president.

SECTION 6. Secretary: The secretary shall keep the minutes of all meetings of the Members and of the Board of Directors; he shall have charge of such books and papers as the Board of Directors and these Bylaws may direct; he shall give all notices required by the Bylaws unless otherwise provided; and he shall, in general, perform all the duties incident to the office of the

secretary of a corporation organized under the laws of the State of North Carolina.

SECTION 7. Treasurer: The treasurer shall have responsibility for Association funds and securities and shall cause the financial records and books of account in books belonging to the Association to be kept. He shall be responsible for the deposit of all monies and other valuable effects in the name and to the credit of the Association, in such depositories as may from time to time be designated by the Board of Directors, and he shall, in general, perform all the duties incident to the office of treasurer of a corporation organized under the laws of the State of North Carolina.

SECTION 8. Signatories to Documents: All agreements, contracts, deeds, leases, checks and other documents of the Association shall be executed by any officer of the Association or by such other person or persons as may be designated by the Board of Directors. Vouchers for the payment of Association funds shall be approved by the treasurer before payment.

SECTION 9. Compensation of Officers: No officer shall receive any compensation from the Association for acting as such.

ARTICLE IX
COMMITTEES

SECTION 1. The standing committees of the Association shall be:

The Nominations and Audit Committee
The Recreation and Maintenance Committee

Unless otherwise provided herein, each committee shall consist of a Chairman and two (2) or more members and shall include a member of the Board of Directors for board contact. The committees may be appointed by the Board of Directors prior to each annual meeting to serve from the close of such annual meeting until the close of the next annual meeting and such appointment shall be announced at each such annual meeting. The Board of Directors may appoint such other committees as it deems desirable. In the event the Committees are not so appointed, the Board of Directors shall perform the functions of the Committees.

SECTION 2. The Nominations and Audit Committee shall consist of at least three (3) persons and shall (a) make as many nominations for election to the Board of Directors as it shall in its discretion determine, but not less than the number of vacancies that are to be filled, in advance of the time fixed for the annual meeting, and (b) supervise the annual audit of the Association's books and approve the annual budget and balance sheet statement to be presented to the membership at its regular annual meeting as provided in ARTICLE VII, Section 15 and ARTICLE X, Section 1 herein. The treasurer shall be an ex-officio member of the Committee. The Committee shall also review the annual budget prior to submission

by the Committee or the Manager to the Board of Directors and recommend any changes or amendments it deems proper.

SECTION 3. The Recreation and Maintenance Committee shall advise the Board on all matters pertaining to (a) the recreational program and activities of the Association and shall perform such other functions as the Board, in its discretion, determines, and (b) the maintenance, repair or improvement of the Common Properties, and shall perform such other functions as the Board, in its discretion, determines.

SECTION 4. Duties: It shall be the additional duty of each committee to receive complaints from Members on any matter involving Association functions, duties, and activities within its field of responsibility. It shall consider such complaints as it deems appropriate or refer them to the manager or such other committee, director or officer of the Association as is further concerned with the matter presented. Each committee shall present an annual report of its activities to the Board of Directors for inclusion in the Annual report to be presented prior to the annual meeting.

ARTICLE X
OPERATION OF THE PROPERTIES

SECTION 1. Determination of Common Expenses and Fixing of Common

Charges:

The Board of Directors shall, from time to time, and at least annually, prepare a budget for The Properties, determine the amount of the Common Charges payable by the Owners to meet the Common Expenses and allocate and assess such Common Charges among the Owners according to their share as established by the Declaration. The Board of Directors shall advise all Owners promptly, in writing, of the amount of Common Charges payable by each of them respectively, as determined by the Board of Directors, as aforesaid, and shall furnish copies of each budget on which such Common Charges are based to all Owners and to their mortgagees upon request. The Common Expenses shall include, among other things:

(a) the cost of repairs and maintenance **of** the Common Properties and appurtenant interest;

(b) all insurance premiums on all policies **of** insurance required to be or which have been obtained by the Board of Directors pursuant to the provisions of ARTICLE VII herein, and the fees and expenses, if any, of the Trustee, if any; provided, **however**, that as long as the Developer is engaged in the construction or erection of improvements on the Common Properties, it shall pay the portion of insurance premiums allocable to builder's risk insurance (including liability coverage for construction operations and completed operations).

(c) such amounts as the Board of Directors may deem proper for the improvement and operation of The Properties, including without limitation an amount for its working capital, a general operating reserve, a reserve fund for replacements, and sums necessary to make up any deficit in the Common Expenses for any prior year;

(d) expenses incurred in leasing or otherwise acquiring the right to use either exclusively or in common with others, recreational or other facilities for the benefit of Owners;

(e) such amounts as may be required for the purchase or lease by the Board of Directors, or its designee, corporate or otherwise, on behalf of all Owners, of any Lot whose Owner has elected to sell or lease such Lot, or of any Lot to be acquired by foreclosure proceedings or proceedings in lieu of foreclosure or which is to be sold at judicial sale;

(f) any other expense in connection with the Common Properties or their improvements which the Board of Directors deems to be of mutual benefit to the Owners or Members.

SECTION 2. Payment of Common Charges: All Owners shall be obligated to pay the Common Charges assessed by the Board of Directors annually or at such other time or times as the Board of Directors shall determine. The Board may authorize Common Charges to be collected by a mortgagee of one or more Lots or by the Manager.

SECTION 3. No Waiver of Liability for Common Expenses: No Member may exempt himself from liability for his contribution toward the Common Expenses by waiver of the use or enjoyment of any of the Common Properties or by abandonment of his Lot.

SECTION 4. Non-Liability After Conveyance: No Owner shall be liable for the payment of any part of the Common Charges assessed against his Lot subsequent to a sale, transfer or other conveyance made pursuant to the provisions of these Bylaws.

SECTION 5. Successor's Liability for Common Charges: A grantee who acquires a Lot shall be liable for, and the Lot conveyed shall be subject to a lien for, any unpaid assessments against the Lot, but not in excess of the amount set forth in a statement provided under ARTICLE XII, Section 2 herein.

SECTION 6. Default in Payment of Common Charges: In the event of default by any Member in paying to the Association the Common Charges as determined by the Board of Directors, such Members shall be obligated to pay interest at the highest rate permitted by applicable law on such Common Charges from the due date thereof until collected, together with all expenses, including attorneys' fees incurred by the Association in any proceeding brought to collect such unpaid charges. The Association shall attempt to re-

cover such Common Charges, together with interest thereon and the expenses of the proceeding including such attorneys' fees, by an action to recover the same brought against such Member, or by foreclosure of the lien on such Lot under powers granted by the Declaration. The use of any recreational facilities by any Member entitled to such use may be suspended by action of the Board of Directors during the period when Common Charges remain in default.

SECTION 7. Foreclosure of Liens for Unpaid Common Charges: In any action brought by the Association to foreclose a lien on a Lot because of any unpaid Common Charges, the Owner shall be required to pay reasonable rental for the use of his Lot from the date of non-payment of Common Charges and the plaintiff in such foreclosure action shall be entitled to the appointment of a receiver to collect the same. The Association acting on behalf of all Owners, shall have the power to purchase such Lot at the foreclosure sale and to acquire, hold, lease, mortgage, vote the votes appurtenant thereto (other than for the election of members of the Board of Directors), convey or otherwise deal with the same. A suit to recover a money judgment for unpaid Common Charges shall be maintainable without foreclosing or waiving the liens securing the same.

SECTION 8. Maintenance, Repair and Replacement:

(a) Common Properties: The Association shall maintain, repair and replace all improvements (including landscaping) located on the Common Properties; and in the event that such maintenance, repair or replacement was caused by the negligence or misuse of an Owner, such expense shall be charged to such Owner.

(b) Lots: Each Owner shall maintain, repair and replace, at his own expense, all portions of his Lot, except any portions thereof to be maintained, repaired and replaced by the Association. Each Lot Owner shall be responsible for damages to any other Lot or to the Common Properties caused intentionally, negligently, or by his failure to properly maintain, repair, or make replacements to his Lot.

SECTION 9. Additions, Alterations, or Improvements by Board of Directors: Whenever, in the judgment of the Board of Directors, the Common Properties shall require additions, alterations or improvements costing more than seven thousand five hundred (\$7,500.00) dollars, which are not to be at the expense of an individual Owner for his own benefit, and the making of such additions, alterations, or improvements shall have been approved at an annual or special meeting of the Owners and by the holders of first mortgages encumbering fifty one percent (51%) of the Lots subject to mortgages, the Board of Directors shall proceed with such additions, alterations or improvements and shall assess all Owners for the cost thereof as a common Charge. Any additions, alterations or improvements costing seven thousand five hundred (\$7,500.00) dollars or less may be made by the Board of Directors

without further approval **of** the Owners or any mortgagees of the Lots, and the costs thereof will constitute part of the Common Expenses.

SECTION 10. Water and Sewer Charges: Each Lot Owner shall be required to pay any water, gas and sewer charges (including, but not limited to, charges related to the use, operation and maintenance of the Plant, the pump station and the sewage collector lines), pertaining to his Lot, Such charges may be separately metered or may be determined in accordance with an engineering determination by the Board of Directors and billed in accordance therewith. The water and sewer services supplied to the Common Properties shall be billed separately and the Association shall pay such bills as a Common Expense.

SECTION 11, Electricity: Electricity shall be supplied by the public utility company servicing the area directly to each Lot, its exterior doors, and any Common Properties, the exclusive use of which is reserved to any such Lot, through a separate meter, and each Owner shall be required to pay the charges for such meter. The electricity servicing the remaining Common Properties shall be metered separately, and the Association shall pay all charges for such meters as a Common Expense.

SECTION 12. Right of Access: Each Owner shall grant a right of access **to** his Lot and the Living Unit thereon to the Manager, or any other person authorized by the Association or the Manager, for the purpose of making inspections or for the purpose **of** correcting any condition originating in his Lot and threatening another Lot or the Common Properties, or for the purpose of performing installations, alterations or repairs to the mechanical or electrical services on his Lot, provided that requests for entry are made in advance and that any such entry be at a time reasonably convenient to the Owner. In case **of** an emergency, such right of entry shall be immediate, whether the Owner is present at the time or not.

ARTICLE XI USE OF THE PROPERTIES

SECTION 1. Restrictions on the Use of The Properties: In order to provide for congenial occupancy of The Properties and for the protection of the values of the Lots, the use of The Properties shall be restricted to, and shall be in accordance with the following provisions:

(a) The Living Units shall be used for residential purposes only, except for home professional pursuits without employees or regular visits by the public, except as use is reserved to the Developer for sales **or** administrative purposes.

(b) Any garages shall be used for the storage of motor vehicles and other miscellaneous storage purposes. Such use shall be in a neat and clean manner consistent with their purpose as residential garages accessory to home ownership.

(c) The Common Properties shall be used only for the purposes for which they are intended.

(d) No nuisances shall be allowed in The Properties, nor any use or practice which is a source of annoyance to residents or which interferes with the peaceful possession and proper use of The Properties by its residents.

(e) No immoral, improper or offensive or unlawful use shall be made of The Properties or any part thereof, and all valid laws, zoning ordinances and regulations of all Governmental bodies having jurisdiction thereof shall be observed. Provisions of the law, orders, rules, regulations or requirements of any Governmental agency having jurisdiction thereof relating to any portion **of** The Properties shall be complied with, by and at the sole expense of the Owners or the Board of Directors, whichever shall have the obligation to maintain or repair such portion of The Properties.

(f) A portion less than a whole Lot shall not be rented, and any lease of a Living Unit must be in writing and all tenants shall be subject to all the provisions of these Bylaws, the Declaration, and any violation of any of these provisions shall constitute a default under the lease.

(g) The Developer may make such use of the unsold Lots or other Lots in which Developer has an interest and Common Properties as may facilitate such completion and sale, including but not limited to maintenance of a sales office, the showing **of** The Properties and the display of signs.

SECTION 2. Restrictions on the Use **of** Common Properties:

(a) Use of Common Properties shall be limited to that **of** the Owners, tenants of Owners and their guests.

(b) For any period during which any assessed Common Charge remains unpaid, for any infraction of its published Rules and Regulations, the Board of Directors may suspend the right to use any recreational Common Properties, and other Common Properties not necessary to give access to the highway for a period not to exceed thirty (30) days.

(c) . The Association may charge reasonable admission fees or other use charges for use of Common Properties which places additional burdens on the facilities **or** staff beyond that necessary for normal day to day activities, or which offer a unique facility limited to fewer than all Owners.

(d) Individual Owners and staff of the Association may have the exclusive use of parking spaces and loading areas, as provided in the Rules and Regulations.

(e) The Developer may establish, from time to time, until the last Lot is sold in The Properties, including any additions thereto (additional units), sales, construction, and marketing facilities on the Common Properties as a part of its program of development of Waterford, including any additions to The Properties. Such facilities shall be totally under the control of the Developer.

SECTION 3. Rules and Regulations: Rules and regulations concerning the use of the Lots and the Common Properties may be made and amended from time to time by the Board of Directors. Copies of such Rules and Regulations shall be furnished by the Board of Directors to each Member prior to the time the same shall become effective. The initial Rules and Regulations adopted or to be adopted by the Board of Directors shall be effective until amended by it.

SECTION 4. Abatement and Enforcement of Violations by Owners: The violation of any Rule or Regulation adopted by the Board of Directors, or the breach of any obligation contained in the Bylaws, or the breach of any obligation contained in the Declaration, shall give the Board of Directors the right, in addition to any other rights set forth by these Bylaws:

(a) To enter the Lot in which, or as to which, such violation or breach exists and to summarily abate and remove, at the expense of the defaulting Lot Owner, any structure, thing, or condition that exists therein contrary to the intent and meaning of the provisions thereof, and the Board of Directors shall not thereby be deemed guilty in any manner of trespass; or

(b) To enjoin, abate or remedy the continuance of any such breach by appropriate equitable proceedings including mandatory injunction, there being no appropriate legal remedy, at the cost of the Member, with attorneys' fees.

(c) If the Board of Directors has adopted and published Rules and Regulations governing the use of The Properties and the personal conduct of any person thereon violates those Rules and Regulations, to suspend such use by any such person for violation of such Rules and Regulations for a period not to exceed thirty (30) days, in addition to the period during which the violation continues.

(d) To levy summary charges as liquidated damages against a Member for such violation, in addition to such damages as have actually been suffered, provided that no summary charges may be levied for more than \$50.00 for any one violation, but for each day a violation continues after notice, it shall be considered a separate violation. Collection of charges for damages or

summary charges may be enforced against the Owner or Owners involved as if the charge were a Common Charge owed by the particular Owner or Owners.

ARTICLE XII
MORTGAGES

SECTION 1. Notice to Association: An Owner who mortgages his Lot or the mortgagees shall notify the Association of the name and address of the mortgagee. The Association shall maintain such information in a book entitled "Mortgagees of Lots".

SECTION 2. Statement of Common Charges: The Association, whenever so requested in writing by an Owner, a prospective Owner, a mortgagee, or by a prospective mortgagee of a Lot, shall promptly report any then unpaid Common Charges due from, or any other default by, the Owner of the mortgaged Lot.

SECTION 3. Notice of Default: The Association, when giving notice to an Owner of a default in paying Common Charges or other default, shall send a copy of such notice to each holder of a mortgage covering such Lot if the name and address of such mortgagee has previously been furnished to the Association.

SECTION 4. Examination of Books: Each Owner or mortgagee of a Lot shall be permitted to examine the books of account of the Association at a reasonable time on business days.

ARTICLE XIII
INSURANCE

SECTION 1. Coverage: To the extent available, the Association shall obtain and maintain insurance coverage as set forth in SECTIONS 2, 3, and 4 hereof. All insurance affecting The Properties shall be governed by the provisions of this ARTICLE. Premiums of insurance obtained by the Association shall be a Common Expense.

SECTION 2. Physical Damage: All buildings and improvements (as defined in Subsection (e) hereof), and all of the personal property owned by the Association, shall be insured, for the benefit of the Association, the Owners and Mortgagees as their interests may appear, against risks of physical damage as follows:

(a) Amounts: As to real property, for an amount equal to not less than ONE HUNDRED (100%) percent of its replacement cost; as to personal property, for an amount equal to its actual cash value. Prior to obtaining any insurance on real property under this SECTION, and at least annually thereafter, the Board of Directors shall obtain an estimate from an insurance agent, or otherwise qualified person, for the purpose of determining the replacement cost of such real property.

(b) Risks Insured Against: The insurance shall afford protection against loss or damage by reason of:

(1) Fire and other perils normally covered by extended coverage;

(2) Vandalism and malicious mischief;

(3) Such other risk of physical damage as from time to time may be customarily covered with respect to buildings and improvements similar in construction, location and use as those on the Common Properties, including, without limitation, builder's risk coverage for improvements under construction; and

(4) Such other risks of physical damage as the Board of Directors may from time to time deem appropriate.

(c) Other Provisions: The insurance shall include, to the extent reasonably obtainable and without limitation, the following provisions:

(1) Waivers by the insurer of rights of subrogation, other than those based on fraud or criminal acts, against the Association and the Owners;

(2) That the insurance shall not be affected or diminished by reason of any other insurance carried by any Owner or Mortgagee;

(3) That the insurance shall not be affected or diminished by failure of any Owner or any occupants or owners of any improvements to comply with any warranty or condition when such failure to comply is not within the control of this Association:

(4) Such deductible as to loss, but not co-insurance features, as the Board of Directors in its sole judgment deems prudent and economical;

(5) That the insurance may not be cancelled or substantially modified (except for the addition of property or increases in amount of coverage) without at least thirty (30) days prior written notice to the named insured:

(6) The standard mortgagee clause, except that any loss otherwise payable to named mortgagees shall be payable in the manner set forth in subsection (7) hereof:

(7) Proceeds for losses shall be payable to the Association or any Trustee designated by the Board of Directors; and

(8) The named insured shall be the Association for the benefit of the Owners.

(d) Definition: As used in this SECTION, the term "all buildings and improvements" shall include, without limitation, all Common Properties and personal property of the Association, and replacements thereof; and may exclude building fixtures, alterations, installations or additions situated within a portion of The Properties used and owned exclusively by an individual Owner and made or acquired at the expense of an individual Owner, after the conveyance of title by the Developer to any such Owner, **of** that portion of The Properties.

SECTION 3. Liability Insurance: The Board of Directors shall obtain and maintain public liability insurance for bodily injury and property damage in such limits as the Board of Directors may from time to time determine, insuring the Association, the Board of Directors, the Manager (at the discretion of the Board of Directors), and each Owner with respect to his liability arising from ownership, maintenance or repair of the Common Properties which is the responsibility of the Association including, without limitation, liability arising from construction operations. Such liability insurance shall also cover cross-liability claims among Owners and the Association. The Board of Directors shall review such limits at least annually. The insurance provided under this SECTION shall include, without limitation, the following provisions:

(a) That the insurance shall not be affected or diminished by any act or neglect of any Owner or any occupants or Owners of any improvements when such act or neglect is not within the control of the Association;

(b) That the insurance shall not be affected or diminished by failure of any Owner or any occupants or Owners **of** any improvements to comply with any warranty or condition when such failure to comply is not within the control of the Association; and

(c) Waivers by the insurer of rights of subrogation, other than those based on fraud or criminal acts, against the Association and the Owners.

SECTION 4. Workmen's Compensation Insurance: The Board of Directors shall obtain and maintain Workmen's Compensation Insurance to meet the requirements of the laws of the State of North Carolina.

SECTION 5. Owners Hazard Insurance: Nothing herein contained shall require any Lot Owner to pay to the Association any amount for hazard insurance on any property owned by the individual Lot Owner.

Each Lot Owner shall be responsible for his own individual hazard insurance coverage on his Lot, all improvements

and contents, except to the extent actually insured by any policies obtained by or through the Association for the benefit of individual Owners. However, each Owner shall be responsible for ascertaining whether or not the Association has obtained any such insurance for the benefit of individual Lot Owners. The Association may require an Owner to exhibit his hazard insurance policy.

SECTION 6. Other Insurance: The Board of Directors is authorized to obtain and maintain such other insurance as it may, from time to time, deem appropriate.

ARTICLE XIV
DAMAGE TO OR DESTRUCTION OF PROPERTY

SECTION 1. Duty to Repair or Restore: Any portion of the Common Properties which is damaged or destroyed shall be repaired or restored promptly by the Association.

SECTION 2. Estimate of Cost: Promptly after damage to or destruction of the Common Properties, and thereafter as it deems advisable, the Board of Directors shall obtain reliable and detailed estimates of the cost of repair or restoration. If such cost in the opinion of the Board of Directors may exceed \$5,000.00, the Board of Directors shall retain the services of an architect to assist in the determination of such estimates and in the supervision of repair and restoration.

SECTION 3. Collection of Construction Funds: Construction funds may consist of insurance proceeds, condemnation awards, proceeds of assessments against Owners and other funds received on account of or arising out of injury or damage to the Common Properties.

(a) Insurance Proceeds: The Board of Directors shall adjust losses under physical damage insurance policies of the Association. Such losses shall be payable in accordance with ARTICLE XIII, SECTION 2 (c)(7) herein.

(b) Condemnation Awards: Any condemnation awards with respect to the Common Properties shall be payable to the Association.

(c) Assessments against Owners: If the insurance proceeds and condemnation awards are insufficient to effect the necessary repair or restoration of the Common Properties, such deficiency shall be charged against all Owners as a Common Expense. The proceeds of assessments for such Common Expense shall be paid to the Association or any Trustee appointed by the Board of Directors.

(d) Payments by Others: Any other funds received on account of or arising out of injury or damage to the Common Properties shall be paid by the Board of Directors to the Trustee.

SECTION 4. Plans and Specifications: Any repair or restoration must be either substantially in accordance with the architectural and engineering plans and specifications for the original improvements or according to plans and specifications approved by the Board of Directors.

SECTION 5. Lots: Repairs or restoration of damage or destruction to a Living Unit or any other improvement on a Lot shall be at the Owners expense.

SECTION 6. Disbursement of Construction Funds: Any Trustee appointed by the Board of Directors shall deduct from the construction funds its actual costs, expenses and a reasonable fee for the performance of its duties, and such Trustee, or the Association if no Trustee is appointed, shall disburse the balance in the following manner:

(a) Payment of Repair or Restoration: Any Trustee shall apply such balance to pay directly, and to reimburse the Association for the payment for, the costs of repair or restoration of the Common Properties including the cost of temporary repairs for the protection of the Common Properties pending the completion of permanent repairs and restoration.

(b) Surplus Funds: If, after payment of all repairs and restoration, there remains any surplus fund, such fund shall be paid to Owners in proportion to the contributions resulting from assessments levied against them pursuant to SECTION 3(c) of this ARTICLE; provided, however, that no Owner shall receive a sum greater than that actually contributed by him. Any surplus remaining after such payments shall be paid to the Association and shall be part of its general income.

(c) Determination Not to Repair or Restore: If there is substantially total destruction, as determined by the Board of Directors, of all of the improvements on the Common Properties, and three-fourths (3/4) of the Owners vote not to proceed with repair or restoration, any balance of construction funds shall be paid to the Association and placed in a reserve for capital improvements on the Common Properties. In the event of dispute as to the fact of substantially total destruction, that issue shall be submitted to arbitration in accordance with the rules of the American Arbitration Association.

SECTION 7. Trustee: The Board of Directors may, but is not required to, enter into and keep in force a trust agreement with a bank in the State of North Carolina with trust powers to receive, administer, and disburse funds pursuant to ARTICLES XIV herein and ARTICLE XI of the Declaration. Any such trust agreement shall incorporate the Declaration and Bylaws by reference and shall provide that upon termination thereof, all monies or funds held by the Trustee shall be turned over only to a successor trustee which shall also be a bank in the State of North Carolina with trust

powers designated Trustee pursuant to this ARTICLE XIV. No amendment of the Declaration or **of** these Bylaws affecting ARTICLE XIII or this ARTICLE XIV shall be binding on the Trustee until the Trustee receives notice of such amendment.

ARTICLE XV
RECORDS

SECTION 1. Records: The Association shall keep detailed records of the actions of the Board of Directors and the manager, minutes **of** the meetings of the Board of Directors, minutes of the meetings of the Owners, names of the Owners and Mortgagees, and financial records and books of account for The Properties, including chronological listing of receipts and expenditures, as well as a separate account for each Lot, which, among other things, shall contain the amount of each assessment of Common Charges against such Lot, the date when due, the amount paid thereon, and the balance remaining unpaid. Unless the Owner notifies the Association **of** change in ownership, the Association may rely on the names **of** Owners appearing on the municipal tax assessor's list as of the last municipal assessment date.

SECTION 2. Statement: A written report and statement summarizing all receipts and expenditures of the Association shall be rendered by the Board of Directors to all Owners at least annually.

SECTION 3. Annual Report: In addition to the annual statement referred to above, an Annual Report of the receipts and expenditures of the Association, prepared but not necessarily audited by an independent certified public accountant, shall be rendered by the Board of Directors to all Owners and to all Mortgagees of Lots whose names appear in the book entitled "Mortgagees of Lots" and who make written request to the Association, promptly after the end of each fiscal year.

SECTION 4. Examination **of** Records: Each Owner and Mortgagee shall be permitted to examine the books of account of the Association at reasonable times on business days, but not more than once a quarter.

ARTICLE XVI
PROXIES

SECTION 1. At all corporate meetings of Members, each Member may vote in person or by proxy.

SECTION 2. All proxies shall be in writing and filed with the Secretary. No proxy shall extend beyond a period of eleven (11) months, and every proxy shall automatically cease upon, sale by a Member **of** his Lot or other interest in The Properties.

ARTICLE XVII
MISCELLANEOUS

SECTION 1. Notices: All notices hereunder shall be sent by mail to the Association at its office in Winston-Salem, North Carolina, to Owners to the Lot on which such Living Unit is located, or to such other address as may have been designated by such Owner from time to time in writing to the Association; to Mortgagees at their addresses **as** designated by them from time to time in writing to the Association. All notices from or to the Association shall be deemed to have been given when mailed, except notice of changes of address which shall be deemed to have been given when received.

SECTION 2. Captions: The Captions herein are inserted as a matter of convenience and for reference, and in no way define, **limit**, or describe the scope of these Bylaws or the intent of any provisions thereof.

SECTION 3. Gender: The use of the masculine or neuter gender in these Bylaws shall be deemed to include the feminine gender, the use of singular shall be deemed to include the plural, when the context so requires.

SECTION 4. Tort Liability: Each Owner shall be deemed to have released and exonerated each other Owner and the Association, and the Association shall be deemed to have released and exonerated each Owner, from any tort liability other than that based on fraud or criminal acts to the extent which such liability is satisfied by the proceeds of liability insurance carried by an Owner or by the Association.

ARTICLE XVIII
INVALIDITY, CONFLICT AND WAIVER

SECTION 1. Invalidity: The invalidity of any part of these Bylaws shall not **impair** or affect in any manner the validity, enforceability or effect of the balance **of** the Bylaws.

SECTION 2. Conflict: These Bylaws are set forth to comply with the requirements of the North Carolina Non-Profit Corporation Act, and the Declaration. In the event of any conflict between these Bylaws and the provisions of such Act, or of the Declaration, the provisions of such Act, or of the Declaration, as the case may be, shall control.

SECTION 3. Waiver: No restriction, condition, or covenant contained in these Bylaws shall be deemed to have been abrogated or waived by reason of failure to enforce the same, irrespective of the number of violations or breaches thereof which may occur.

ARTICLE XIX
AMENDMENTS TO BYLAWS

SECTION 1. Method of Amendment: These Bylaws may be altered, amended or added to at any duly called meeting of the Owners, provided:

(a) that the notice of the meeting shall contain a substantial statement of the proposed amendment;

(b) that the amendment be approved in writing by the holders of mortgages on not less than fifty (50%) percent of the Lots subject to mortgages:

(c) that the amendment be approved by the Board of Directors of the Association, and

(d) that said amendment shall be fully consistent in a duly recorded amendment to the Declaration executed by the President and Secretary of the Association: however, no amendment to the Declaration, or the recordation thereof, shall be necessary unless such amendment to these Bylaws creates an inconsistency with the Declaration.

SECTION 2. Effect of Amendments upon Encumbrances: No amendment or modification of the Bylaws will affect or impair the validity or priority of any mortgage encumbering the Lot or Lots, nor the validity or priority of any other proper lien.