

BYLAWS
OF
THE MASONBORO VILLAGE HOMEOWNERS' ASSOCIATION, INC.

ARTICLE I

NAME, PRINCIPAL OFFICE, AND DEFINITIONS

1.1 Name

The name of the corporation is The Masonboro Village Homeowners' Association, Inc. (the "Association").

1.2 Principal Office

The Association's principal office shall be located in Wilmington, North Carolina. The Association may have such other offices, either within or outside Masonboro Village, as the Board of Directors may determine or as the Association's affairs may require.

1.3 Definitions

The words used in the Bylaws shall be given their normal, commonly understood definitions. Capitalized terms shall have the same meaning as set forth in that certain Recorded Declaration of Covenants, Conditions, and Restrictions for Masonboro Village as it may be amended (the "Declaration"), unless the context indicates otherwise.

ARTICLE II

MEMBERSHIP, MEETINGS, QUORUM, VOTING, PROXIES

2.1 Membership

The Association shall have two classes of membership, Class "A" and Class "B", as more fully set forth in the Declaration. The provisions of the Declaration pertaining to membership are incorporated by this reference.

2.2 Place of Meetings

Association meetings shall be held at the principal office of the Association or at such other suitable place convenient to the Members as the Board may designate.

2.3 Annual Meetings

The Association shall hold its first meeting, whether a regular or special meeting, within one

year after the date of the Association's incorporation. The Board shall set the date and time of subsequent regular annual meetings. Annual meetings may be conducted electronically (i.e., via the Internet, intranet, or teleconference) if, and to the extent, permitted by law.

2.4 Special Meetings

The President may call special meetings. It shall also be the President's duty to call a special meeting if so directed by Board resolution or upon a petition signed by Voting Members representing at least 10% of the total Class "A" votes of the Association.

2.5 Notice of Meetings

Written or printed notice stating the place, day, and hour of any meeting of the Voting Members shall be delivered, either personally or by mail, to each Voting Member entitled to vote at such meeting, not less than 10 nor more than 50 days before the date of such meeting, by or at the direction of the President or the Secretary or the officers or persons calling the meeting.

In the case of a special meeting or when otherwise required by statute or these Bylaws, the purpose or purposes for which the meeting is called shall be stated in the notice. No business shall be transacted at a special meeting except as stated in the notice.

If mailed, the notice shall be deemed to be delivered when deposited in the United States mail addressed to the Voting Member at his address as it appears on the Association's records, with postage prepaid.

2.6 Waiver of Notice

Waiver of notice of a meeting of the Voting Members shall be deemed the equivalent of proper notice. Any Voting Member may waive, in writing, notice of any meeting of the Voting Members, either before or after such meeting. Attendance at a meeting by a Voting Member shall be deemed waiver by such Voting Member of notice of the time, date and place thereof, unless such Voting Member specifically objects to lack of proper notice at the time the meeting is called to order. Attendance at a special meeting also shall be deemed waiver of notice of all business transacted at such meeting unless an objection on the basis of lack of proper notice is raised before the business is put to a vote.

2.7 Adjournment of Meetings

If the Association cannot hold a meeting because a quorum is not present, a majority of the Voting Members who are present at such meeting may adjourn the meeting to a time not less than five nor more than 30 days from the time the original meeting was called. At the reconvened meeting, if a quorum is present, any business may be transacted which might have been transacted at the meeting originally called. If a time and place for reconvening the meeting is not fixed by those

in attendance at the original meeting or if for any reason a new date is fixed for reconvening the meeting after adjournment, notice of the time and place for reconvening the meeting shall be given to Voting Members in the manner prescribed for regular meetings.

Voting Members present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough Voting Members to leave less than a quorum, provided that any action taken is approved by at least a majority of the votes required to constitute a quorum.

2.8 Voting

Members' voting rights shall be as set forth in the Declaration and in these Bylaws, and such voting rights provisions are specifically incorporated by this reference.

2.9 Proxies

Voting Members may not vote by proxy but only in person or through their designated alternates; provided, any Voting Member who is only entitled to cast the vote(s) for his or her own Unit(s) pursuant to the Declaration may cast such vote in person or by proxy until such time as the Board first calls for election of a Voting Member to represent the Neighborhood of which the Unit is a part. On any matter as to which a Member is entitled personally to cast the vote for his or her Unit, such vote may be cast in person or by proxy, subject to the limitations of North Carolina law relating to use of general proxies and subject to any specific provision to the contrary in the Declaration or these Bylaws.

Every proxy shall be in writing specifying the Unit for which it is given, signed by the Member or his duly authorized attorney-in-fact, dated, and filed with the Association's Secretary prior to the meeting for which it is to be effective. Unless otherwise specifically provided in the proxy, a proxy shall be presumed to cover all votes which the Member giving such proxy is entitled to cast, and in the event of any conflict between two or more proxies purporting to cover the same voting rights, the later dated proxy shall prevail, or if dated as of the same date, both shall be deemed invalid.

Every proxy shall be revocable and shall automatically cease upon: (a) conveyance of any Unit for which it was given, (b) receipt by the Secretary of written notice of revocation of the proxy or of the death or judicially declared incompetence of a Member who is a natural person, from the date of the proxy, unless a shorter period is specified in the proxy.

2.10 Majority

As used in these Bylaws, the term "majority" shall mean those votes, Owners, or other group as the context may indicate totaling more than 50% of the total eligible number.

2.11 Quorum

Except as otherwise provided in these Bylaws or in the Declaration, the presence of Voting Members representing a majority of the total Class "A" votes in the Association shall constitute a quorum at all Association meetings.

2.12 Conduct of Meetings

The President shall preside over all meetings of the Association, and the Secretary shall keep the minutes of the meetings and record in a minute book all resolutions adopted and all other transactions occurring at such meetings.

2.13 Action Without a Meeting

Any action required or permitted by law to be taken at a meeting of the Voting Members may be taken without a meeting, without prior notice and without a vote if written consent specifically authorizing the proposed action is signed by Voting Members holding at least the minimum number of votes necessary to authorize such action at a meeting if all Voting Members entitled to vote thereon were present. Such consents shall be signed within 60 days after receipt of the earliest dated consent, dated and delivered to the Association. Such consents shall be filed with the Association's minutes and shall have the same force and effect as a vote of the Voting Members at a meeting. Within 10 days after receiving authorization for any action by written consent, the Secretary shall give written notice to all Voting Members entitled to vote who did not give their written consent, fairly summarizing the material features of the authorized action.

ARTICLE III

DIRECTORS: SELECTION, MEETINGS, POWERS

A. Composition and Selection

3.1 Governing Body: Composition

The Board of Directors shall govern the Association's affairs. Each director shall have one vote. Except for directors appointed by the Class "B" Member, directors shall be Members or residents. However, no Owner and resident representing the same Unit may serve on the Board at the same time. A "resident" shall be any natural person 18 years of age or older whose principal residence is a Unit within Masonboro Village. If a Member is not a natural person, any officer, director, partner or trust officer of such Member shall be eligible to serve as a director unless otherwise specified by written notice to the Association signed by such Member. However, no Member may have more than one such representative on the Board at a time, except in the case of directors appointed by the Class "B" Member.

3.2 Number of Directors

The Board shall consist of two to seven directors, as provided in Sections 3.3 and 3.5 below. The initial Board shall consist of two directors as identified in the Articles of Incorporation.

3.3 Directors During Class "B" Control Period

The Class "B" Member shall have complete discretion in appointing its directors under Section 3.5. Class "B" Member-appointed directors shall serve at the pleasure of the Class "B" Member.

3.4 Nomination and Election Procedures

- (a) **Nominations and Declarations of Candidacy.** Prior to each election of directors, the Board shall prescribe the opening date and the closing date of a reasonable filing period in which each and every eligible person who has a bona-fide interest in serving as a director may file as a candidate for any position to be filled by Class "A" votes. The Board shall also establish such other rules and regulations as it deems appropriate to conduct the nomination of directors in a fair, efficient, and cost-effective manner. Nominations also may be permitted from the floor.

Except with respect to directors selected by the Class "B" Member, a Nominating Committee may also make nominations for election to the Board. The Nominating Committee, if any, shall consist of a Chairman, who shall be a member of the Board, and three or more Members or representatives of Members, with at least one representative from each Voting Group. Members of the Nominating Committee shall be appointed by the Board not less than 30 days prior to each annual meeting to serve a term of one year and until their successors are appointed, and such appointment shall be announced in the notice of each election.

The Nominating Committee may make as many nominations for election to the Board as it shall in its discretion determine. The Nominating Committee shall nominate separate slates for the directors, if any, to be elected at large by all Class "A" votes, and for the director(s) to be elected by the votes within each Voting Group. In making its nominations, the Nominating Committee shall use reasonable efforts to nominate candidates representing the diversity that exists within the pool of potential candidates.

The Board shall give each candidate a reasonable, equal opportunity to communicate his or her qualifications to the Members and to solicit votes.

3.5 Election and Term of Office

Except as these Bylaws may otherwise specifically provide, election of directors shall take place at the Association's annual meeting. Notwithstanding any other provision of these Bylaws:

Within 30 days after the time that Class "A" Members other than Builders own 33% of the Units proposed by the master Plan for the property described in Exhibit "A" of the Declaration, or whenever the Class "B" Member earlier determines, the President shall call for an election by which the Voting Members shall be entitled to elect one of the three directors, who shall be an at-large director. The remaining directors shall be appointees of the Class "B" Member. The director elected by the Voting Members shall not be subject to removal by the Class "B" Member and shall be elected for a term of two years or until the happening of the event described in subsection (b), whichever is shorter. If such director's term expires prior to the happening of the event described in subsection (b), a successor shall be elected for a like term.

Within 30 days after the time that Class "A" Members other than Builders own 66% of the Units proposed by the Master Plan for the property described in Exhibit "A" of the Declaration, or whenever the Class "B" Member earlier determines, the Board shall be increased to five directors. The President shall call for an election by which the Voting Members shall be entitled to elect two of the five directors, who shall serve as at-large directors. The remaining three directors shall be appointees of the Class "B" Member. Directors elected by the Voting Members shall not be subject to removal by the Class "B" Member and shall be elected for a term of two years or until the happening of the event described in subsection (c) below, whichever is shorter. If such directors' terms expire prior to the happening of the event described in subsection (c) below, successors shall be elected for a like term.

Within 90 days after termination of the Class "B" Control Period, the President shall call for an election by which the Voting Members shall be entitled to elect three of the five directors, who shall serve as at-large directors. The remaining two directors shall be appointees of the Class "B" Member. Directors elected by the Voting Members shall not be subject to removal by the Class "B" Member and shall serve until the first annual meeting following the termination of the Class "B" Control Period. If such annual meeting is scheduled to occur within 90 days after termination of the Class "B" Control Period, this subsection shall not apply and directors shall be elected in accordance with subsection (d) below.

(d) Not later than the first annual meeting after the termination of the Class "B" Control Period, the Board shall be increased to seven directors and an election shall be held. Six directors shall be elected by the Voting Members, with an equal number of directors elected by the Voting Members representing each Voting Group and any remaining directorships filled at large by the vote of all Voting Members. Three directors shall serve a term of two years and three directors shall serve a term of one year, as such directors determine among themselves.

Until termination of the Class "B" membership, the Class "B" Member shall be entitled to appoint one director. Upon termination of the Class "B" membership, the director elected by the Class "B" Member shall resign and the remaining directors shall be entitled to appoint a director to serve until the next annual meeting, at which time the Voting Members shall be entitled to elect a director to fill such position. Such director shall be elected for a term of two years.

Upon expiration of the term of office of each director elected by the Voting Members, Voting Members entitled to elect such director shall be entitled to elect a successor to serve a term of two years. Directors elected by the Voting Members shall hold office until their respective successors have been elected.

Composition of Board of Directors:

Initial	Within 30 Days of When Sold to Homeowners ²	Within 30 Days of When 66% of Units ¹ Sold to Homeowners ²	Within 90 Days of Termination of Class "B" Control Period	First Annual Meeting After Termination of Class "B" Control Period	Termination of Class "B" Membership
Class "B"	VM ³	VM	VM	VM	VM
Class "B"	Class "B"	VM	VM	VM	VM
Class "B"	Class B	Class "B"	VM	VM	VM
		Class "B"	Class "B"	VM	VM
		Class "B"	Class "B"	VM	VM
				VM	VM
				Class "B"	VM

1. Percentage based upon total number of Units Permitted by Master Plan for property described in Exhibits "A" and "B"

2. Sales to builders not counted

3. VM= Class "A" Voting Members

3.6 Removal of Directors and Vacancies

Any director elected by the voting Members may be removed, with or without cause, by the vote of Voting Members holding a majority of the votes entitled to be cast for the election of such director. Any director whose removal is sought shall be given notice prior to any meeting

called for that purpose. Upon removal of a director, a successor shall be elected by the Voting Members entitled to elect the director so removed to fill the vacancy for the remainder of the term of such director.

Any director elected by the Voting Members who has three consecutive unexcused absences from Board meetings, or who is more than 30 days delinquent (or is the representative of a Member who is so delinquent) in the payment of any assessment or other charge due the Association, may be removed by a majority of the directors present at a regular or special meeting at which a quorum is present, and the Board may appoint a successor to fill the vacancy for the remainder of the term.

In the event of the death, disability, or resignation of a director, the Board may declare a vacancy and appoint a successor fill the vacancy until the next annual meeting, at which time the Voting Members entitled to fill such directorship may elect a successor for the remainder of the term.

Any director whom the Board appoints shall be selected from among Members within the Voting Group represented by the director who vacated the position.

This Section shall not apply to directors appointed by the Class "B" Member or to any director serving as Declarant's representative. The Class "B" Member or Declarant shall be entitled to appoint a successor to fill any vacancy on the Board resulting from the death, disability or resignation of a director appointed by or elected as a representative of the Class "B" member or Declarant.

B. Meetings

3.7 Organizational Meetings

The first Board meeting following each annual meeting of the membership shall be held within 10 days thereafter at such time and place as the Board shall fix.

3.8 Regular Meetings

Regular Board meetings may be held at such time and place as a majority of the directors shall determine, but at least four such meetings shall be held during each fiscal year with at least one per quarter.

3.9 Special Meetings

Special meetings of the Board shall be held when called by written notice signed by the President or Vice President or by any two directors.

3.10 Notice: Waiver of Notice

- (a) Notice of Board meetings shall specify the time and place of the meeting and, in the case of a special meeting, the nature of any special business to be considered. The notice shall be given to each director by (i) personal delivery; (ii) first class mail, postage prepaid; (iii) telephone communication, either directly to the director or to a person at the director's office or home who would reasonably be expected to communicate such notice promptly to the director; or (iv) facsimile, computer, fiberoptics or other electronic communication device, with confirmation of transmission. All such notices shall be given at the director's telephone number, fax number, electronic mail number, or sent to the director's address as shown on the records of the Association. Notices sent by first class mail shall be deposited into a United States mailbox at least five business days before the time set for the meeting. Notices given by personal delivery, telephone, or other device shall be delivered or transmitted at least 72 hours before the time set for the meeting.
- (b) Transactions of any Board meeting, however called and noticed or wherever held, shall be as valid as though taken at a meeting duly held after regular call and notice if (i) a quorum is present, and (ii) either before or after the meeting each director not present signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes. The waiver of notice or consent need not specify the purpose of the meeting. Notice of a meeting also shall be deemed given to any director who attends the meeting without protesting before or at its commencement about the lack of adequate notice.

3.11 Telephonic Participation in Meetings

Members of the Board or any committee designated by the Board may participate in a meeting of the Board or committee by means of conference telephone or similar communications equipment, by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this subsection shall constitute presence in person at such meeting.

3.12 Quorum of Board

At all Board meetings, a majority of the directors shall constitute a quorum for the transaction of business, and the votes of a majority of the directors present at a meeting at which a quorum is present shall constitute the Board's decision, unless otherwise specifically provided in these Bylaws or the Declaration. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting. If any Board meeting cannot be held because a quorum is not present, a majority of the directors present at such meeting may adjourn the meeting to a time not less than five nor more than thirty days from the

date of the original meeting. If a quorum is present at the reconvened meeting, any business, which might have been transacted at the meeting originally called, may be transacted without further notice.

3.13 Conduct of Meetings

The President shall preside over all Board meetings, and the Secretary shall keep a minute book of Board meetings, recording all Board resolutions and all transactions and proceedings occurring at such meetings.

3.14 Open Meetings: Executive Session

- (a) Except in an emergency, notice of Board meetings shall be posted at least 48 hours in advance of the meeting at a conspicuous place within the Properties, which the Board establishes for the posting of notices relation to the Association. Notice of any meeting at which assessments are to be established shall state that fact and the nature of the assessment. Subject to the provisions of Section 3.15, all Board meetings shall be open to all Voting Members and, if required by law, all Owners; but attendees other than directors may not participate in any discussion or deliberation unless a director requests that they be granted permission to speak. In such case, the President may limit the time any such individual may speak.
- (b) Notwithstanding the above, the President may adjourn any meeting of the Board and reconvene in executive session, and may exclude persons other than directors, to discuss matters of a sensitive nature, such as pending or threatened litigation, personnel matters, etc.

3.15 Action Without a Formal Meeting

Any action to be taken at a meeting of the directors may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all of directors, and such consent shall have the same force and effect as a unanimous vote.

C. Powers and Duties

3.16 Powers

The Board shall have all of the powers and duties necessary for the administration of the Association's affairs and for performing all responsibilities and exercising all rights of the Association as set forth in the Governing Documents, and as provided by law. The Board may do or cause to be done on behalf of the Association all acts and things except those the Governing Documents or North Carolina law requires to be done and exercised exclusively by the Voting Members or the membership generally.

3.17 Duties

The Board's duties shall include, without limitation:

- (a) preparing and adopting, in accordance with the Declaration, an annual budget establishing each Owner's share of the Common Expenses and any Neighborhood Expenses;**
- (b) levying and collecting such assessments from the Owners;**
- (c) providing for the operation, care, upkeep, and maintenance of the Area of Common Responsibility consistent with the Community-Wide Standard;**
- (d) designating, hiring, and dismissing personnel necessary to carry out the Association's rights and responsibilities and where appropriate, providing for compensation of such personnel and for the purchase of equipment, supplies, and materials to be used by such personnel in the performance of their duties;**
- (e) depositing all funds received on behalf of the Association in a bank depository which it shall approve, and using such funds to operate the Association; provided, any reserve funds may be deposited, in the Board's best judgment, in depositories other than banks;**
- (f) making and amending use restrictions and rules in accordance with the Declaration;**
- (g) opening bank accounts on behalf of the Association and designating the signatories required;**
- (h) making or contracting for the making or repairs, additions, and improvements to or alterations of the Common Area in accordance with the Declaration and these Bylaws;**
- (i) enforcing by legal means the provisions of the Governing Documents and bringing any proceedings which may be instituted on behalf of or against the Owners concerning the Association; provided, the Association's obligation in this regard shall be conditioned in the manner provided in the Declaration;**
- (j) obtaining and carrying property and liability insurance and fidelity bonds, as provided in the Declaration, paying the cost thereof, and filing and adjusting claims, as appropriate;**
- (k) paying the cost of all services rendered to the Association;**

- (l) keeping books with detailed accounts of the Association's receipts and expenditures;
- (m) making available to any prospective purchaser of a Unit, any Owner, and the holders, insurers, and guarantors of any Mortgage on any Unit, current copies of the Governing Documents and all other books, records, and financial statements of the Association as provided in Section 6.4;
- (n) permitting utility suppliers to use portions of the Common Area reasonable necessary to the ongoing development or operation of the Properties;
- (o) indemnifying a director, officer or committee member, or former director, officer or committee member of the Association to the extent such indemnity is required by North Carolina law, the Articles of Incorporation or the Declaration; and
- (p) assisting in the resolution of disputes between owners and others without litigation, as set forth in the Declaration.

3.18 Compensation

The Association shall not compensate any Director for acting as such unless approved by Voting Members representing a majority of the total Class "A" votes in the Association. Any director may be reimbursed for expenses incurred on behalf of the Association upon approval of a majority of the other directors. Nothing herein shall prohibit the Association from compensating a director, or any entity with which a director is affiliated, for services or supplies furnished to the Association in a capacity other than as a director pursuant to a contract or agreement with the Association, provided that such director's interest was made known to the Board prior to entering into such contract and such contract was approved by a majority of the Board, excluding the interested director.

3.19 Right of Class "B" Member to Disapprove Actions

So long as the Class "B" membership exists, the Class "B" Member shall have a right to disapprove any action, policy or program of the Association, the Board and any committee which, in the sole judgment of the Class "B" Member, would tend to impair rights of Declarant or Builders under the Declaration or these Bylaws, or interfere with development or construction of any portion of Masonboro Village, or diminish the level of services being provided by the Association.

- (a) Notice. The Association, the Board, and each committee shall give the Class "B" Member written notice of all meetings and proposed actions approved at meetings (or by written consent in lieu of a meeting). Such notice shall be given by certified mail, return receipt requested, or by personal delivery at the address it has registered with the Association's Secretary, which notice complies as to Board

meetings with Sections 3.8, 3.9, 3.10 and 3.11 and which notice shall, except in the case of the regular meetings held pursuant to the Bylaws, set forth with reasonable particularity the agenda to be followed at such meeting; and

- (b) Opportunity to be Heard. The Association, the Board, and each committee shall give the Class "B" Member the opportunity at any meeting to join in or to have its representatives or agents join in discussion from the floor of any prospective action, policy or program which would be subject to the right of disapproval set forth herein.

No action, policy or program subject to the right of disapproval set forth herein shall become effective or be implemented until and unless the requirements of subsections (a) and (b) above have been met.

The Class "B" Member, its representatives or agents shall make its concerns, thoughts, and suggestions known to the Board and/or the members of the subject committee. The Class "B" Member, acting through any office or director, agent or authorized representative, may exercise its right to disapprove at any time within 10 days following the meeting at which such action was proposed or, in the case of any action taken by written consent in lieu of a meeting, at any time within 10 days following receipt of written notice of the proposed action. This right to disapprove may be used to block proposed actions but shall not include a right to require any action or counteraction on behalf of any committee, the Board, or the Association. The Class "B" Member shall not use its right to disapprove to reduce the level of services, which the Association is obligated to provide or to prevent capital repairs or any expenditure required to comply with applicable laws and regulations.

3.20 Management

The Board may employ a professional management agent or agents at such compensation as the Board may establish, to perform such duties and services as the Board shall authorize. The Board may delegate such powers as are necessary to perform the manager's assigned duties, but shall not delegate policy-making authority or those duties set forth in Sections 3.17(a) (with respect to the adoption of the budget), 3.17(b), 3.17(f), 3.17(g) and 3.17(i). Declarant or its affiliate may be employed as managing agent or manager.

The Board may delegate to one of its members the authority to act on the Board's behalf on all matters relating to the duties of the managing agent or manager, if any, which might arise between Board meetings.

The Association shall not be bound, either directly or indirectly, by any management contract executed during the Class "B" Control Period unless such contract contains a right of termination that the Association may exercise, with or without cause and without penalty, at any time after termination of the Class "B" Control Period upon not more than 90 days' written notice.

3.21 Accounts and Reports

The following management standards of performance shall be followed unless the Board by resolution specifically determines otherwise:

- (a) accrual accounting, as defined by generally accepted accounting principles, shall be employed;
- (b) account and controls should conform to generally accepted accounting principles;
- (c) cash accounts of the Association shall not be commingled with any other accounts;
- (d) the managing agent shall not accept remuneration from vendors, independent contractors, or others providing goods or services to the Association, whether in the form of commissions, finder's fees, service fees, prizes, gifts, or otherwise; the Association shall benefit from anything of value received.
- (e) any financial or other interest the managing agent may have in any firm providing goods or services to the Association shall be disclosed promptly to the Board;
- (f) commencing at the end of the quarter in which the first Unit is sold and closed, financial reports shall be prepared for the Association at least quarterly containing:
 - (1) an income statement reflecting all income and expense activity for the preceding period on an accrual basis;
 - (2) a statement reflecting all cash receipts and disbursements for the preceding period;
 - (3) a variance report reflecting the status of all accounts in an "actual" versus "approved" budget format;
 - (4) a balance sheet as of the last day of the preceding period; and
 - (5) a delinquency report listing all Owners who are delinquent in paying any assessments at the time of the report and describing the status of any action to collect such assessments which remain delinquent (any assessment or installment thereof shall be considered to be delinquent on the 15th day following the due date unless otherwise specified by Board resolution); and

- (g) an annual report consisting of at least the following shall be made available to all Members within 120 days after the close of the fiscal year: (i) a balance sheet; (ii) an operating (income) statement; and (iii) a statement of changes in financial position for the fiscal year. Such annual report shall be prepared on an audited, reviewed or compiled basis, as the Board determines, by an independent public accountant; provided, upon written request of any holder, guarantor or insurer of any first Mortgage on a Unit, the Association shall provide an audited financial statement. During the Class "B" Control Period, the annual report shall include certified financial statements.

3.22 Borrowing

The Association may borrow money for any legal purpose; provided, the Board shall obtain Voting Member approval in the same manner provided in the Declaration for Special Assessments if the proposed borrowing is for the purpose of making discretionary capital improvements and the total amount of such borrowing, together with all other debt incurred within the previous 12-month period, exceeds or would exceed 10% of the Association's budgeted gross expenses for that fiscal year. During the Class "B" Control Period, no Mortgage lien shall be placed on any portion of the Common Area without the affirmative vote or written consent, or any combination thereof, of Voting Members representing at least 51% of the total Class "A" votes.

3.23 Right to Contract

The Association shall have the right to contact with any Person for the performance of various duties and functions. This right shall include, without limitation, the right to enter into common management, operational, or other agreements with trusts, condominiums, cooperatives, or Neighborhood and other owners or residents associations, within and outside Masonboro Villages. Any common management agreement shall require the consent of a majority of the Board.

3.24 Enforcement

The Association may impose sanctions for any violation of the Governing Documents. To the extent specifically required by the Declaration, the Board shall comply with the following procedures prior to imposition of sanctions:

- (a) Notice. The Board or its delegate shall serve the alleged violator with written notice describing (i) the nature of the alleged violation, (ii) the proposed sanction to be imposed, (iii) a period of not less than 10 days within which the alleged violator may present a written request for a hearing to the Board; and (iv) a statement that the proposed sanction shall be imposed as contained in the notice unless a challenge is begun within 10 days of the notice. If a timely request for a hearing is not made, the sanction stated in the notice shall be imposed; provided

the Board may, but shall not be obligated to, suspend any proposed sanction if the violation is cured within the 10-day period. Such suspension shall not constitute a waiver of the right to sanction future violations of the same or other provisions and rules by any Person.

- (b) **Hearing.** If a hearing is requested within the allotted 10-day period, the hearing shall be held before the Board in executive session. The alleged violator shall be afforded a reasonable opportunity to be heard. Prior to the effectiveness of any sanction hereunder, proof of proper notice shall be placed in the minutes of the meeting. Such proof shall be deemed adequate if a copy of the notice, together with a statement of the date and manner of delivery, is entered by the officer, director, or agent who delivered such notice. The notice requirement shall be deemed satisfied if the alleged violator or its representative appears at the meeting. The minutes of the meeting shall contain a written statement of the results of the hearing and the sanction, if any, imposed.
- (c) **Additional Enforcement Rights.** Notwithstanding anything to the contrary in this Article, the Board may elect to enforce any provision of the Governing Documents by self-help (specifically including, but not limited to, towing vehicles that violate parking rules) or, following compliance with the dispute resolution procedures set forth in the Declaration, if applicable, by suit at law or in equity to enjoin any violation or to recover monetary damages or both, without the necessity of compliance with the procedure set forth above. In any such action, to the maximum extent permissible, the Owner or occupant responsible for the violation of which abatement is sought shall pay all costs, including reasonable attorney's fees actually incurred. Any entry onto a Unit for purposes of exercising this power of self-help shall not be deemed as trespass.

3.25 Board and Office Training

The Board shall conduct or provide for seminars and continuing education opportunities designed to educate and inform its officers and directors of their responsibilities as officers and directors. Such programs may include instruction on applicable North Carolina corporate and fiduciary law principles, other issues relating to administering community affairs, and upholding and enforcing the Governing Documents. The Board may retain industry professionals, which may include property managers, attorneys, and accountants, as appropriate or necessary for such purpose. Each newly elected officer and director shall complete a training seminar within the first six months of assuming such position. The seminar may be live, video or audiotape, or in other format.

In a similar manner, the Board may provide for Owner and resident education and training opportunities designed to foster awareness of the Association's governance, operations, and concerns. The Board shall conduct or provide for training and information classes designed to educate Neighborhood Representative and Class "A" Members of the nomination, election,

and voting processes and the duties and responsibilities of directors and officers, as provided in Section 3.4.

3.26 Board Standards

In the performance of their duties, Association directors and officers shall be insulated from personal liability as provided by North Carolina law for directors and officers of nonprofit corporations, and as otherwise provided in the Governing Documents. Directors are required to exercise the ordinary and reasonable care of directors of a corporation, subject to the business judgment rule.

As defined herein, a director shall be acting in accordance with the business judgment rule so long as the director (a) acts within the express or implied terms of the Governing Documents and his or her actions are not *ultra vires* (*i.e.*, outside the scope of the director's authority); (b) affirmatively undertakes to make decisions which are necessary for the Association's continued and successful operation and, when decisions are made, they are made on an informed basis; (c) acts on a disinterested basis, promptly discloses any real or potential conflict of interests (pecuniary or other), and avoids participation in decisions and actions when a conflict exists; and (d) acts in a non-fraudulent manner and without reckless indifference to the Association's affairs. A director acting in accordance with the business judgment rule shall be protected from personal liability.

Board determinations of the meaning, scope, and application of Governing Documents provisions shall be upheld and enforced so long as such determinations are reasonable. The Board shall exercise its power in a fair and nondiscriminatory manner and shall adhere to the procedures established in the Governing Documents.

3.27 Conflicts of Interest; Code of Ethics

Unless otherwise approved by a majority of the other directors, no Class "A" Director may transact business with the Association's contractor during his or her term as director or within two years after the term expires. A director shall promptly disclose in writing to the Board any actual or potential conflict of interest affecting the directors relative to his or her performance as a director. A director's failure to make such disclosure shall be grounds for removal by a majority vote of the other Board members. The Board may void any contract, which creates a prohibited conflict of interest.

Notwithstanding the above, directors appointed by the Class "B" Member may be employed by or otherwise transact business with Declarant or any affiliate of Declarant, and Declarant and its affiliates may transact business with the Association or its contractors.

The initial Board shall create and adopt a written "Code of Ethics" applicable to all directors and officers. The Code of Ethics shall incorporate the above standards and other conduct rules it deems appropriate. At a minimum, the Code of Ethics shall require each officer

and director to conduct himself or herself in a manner consistent with the Board Standards described in Section 3.26. Each officer and director, as a pre-condition to service, shall acknowledge and agree, in writing, to abide by the Code of Ethics. The Board must approve any amendment to the Code of Ethics.

ARTICLE IV OFFICERS

4.1 Officers

The Association's officers shall be a President, Vice President, Secretary and Treasurer. The President and Secretary shall be elected from among Board members; other officers may, but need not be Board members. The Board may appoint such other officers, including one or more Assistant Secretaries and one or more Assistant Treasurers, as it shall deem desirable, such officers to have such authority and perform such duties as the Board prescribes. The same person may hold any two or more offices, except the offices of President and Secretary.

4.2 Election and Term of Office

The Board shall elect the Association's officers at the first Board meeting following each annual meeting of the Voting Members, to serve until their successors are elected.

4.3 Removal and Vacancies

The Board may remove any officer whenever in its judgment the best interests of the Association will be served, and may fill any vacancy in any office arising because of death, resignation, removal, or otherwise, for the unexpired portion of the term.

4.4 Powers and Duties

The Association's officers shall each have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as may specifically be conferred or imposed by the Board. The President shall be the Association's chief executive officer. The Treasurer shall have primary responsibility for preparation of the budget as provided for in the Declaration and may delegate all or part of the preparation and notification duties to a finance committee, management agent, or both.

4.5 Resignation

Any officer may resign at any time by giving written notice to the Board, the President, or the Secretary. Such resignation shall take effect on the date of the receipt of such notice or at any later time specified therein, and unless otherwise specified therein, acceptance of such resignation shall not be necessary to make it effective.

4.6 Agreements, Contracts, Deeds, Leases, Checks, Etc.

At least two officers or such other person(s) as the Board may designate shall execute the Association's agreements, contracts, deeds, leases, and other instruments.

4.7 Compensation

Compensation of officers shall be subject to the same limitations as compensation of directors under Section 3.18.

**ARTICLE V
COMMITTEES**

5.1 General

The Board may appoint such committees as it deems appropriate to perform such tasks and to serve for such periods as the Board may designate by resolution. Each committee shall operate in accordance with the terms of such resolution.

5.2 Covenant's Committee

In addition to any other committees the Board may establish pursuant to Section 5.1, the Board may appoint a Covenants Committee consisting of at least three and no more than seven Members. Acting in accordance with the provisions of the Declaration, these Bylaws, and resolutions the Board may adopt, the Covenants Committee, if established, shall be the hearing tribunal of the Association and shall conduct all hearings held pursuant to Section 3.24.

5.3 Neighborhood Committees

In addition to any other committees appointed as provided above, each Neighborhood which has no formal organizational structure or association may elect a Neighborhood Committee to determine the nature and extent of services, if any, to be provided to the Neighborhood by the Association in addition to those provided to all Members of the Association in accordance with the Declaration. A Neighborhood Committee may advise the Board on any other issue but shall not have the authority to bind the Board. Such Neighborhood Committees, if elected, shall consist of three to five Members, as determined by the vote of at least 51% of the Owners of Units within the Neighborhood.

Neighborhood Committee members shall be elected for a term of one year or until their successors are elected. Any director elected to the Board from a Neighborhood shall be an *ex officio* member of the Neighborhood Committee. The Voting Member representing such Neighborhood shall be the chairperson of the Neighborhood Committee, shall preside at its meetings, and shall be responsible for transmitting any and all communications to the Board.

In the conduct of its duties and responsibilities, each Neighborhood Committee shall abide by the notice and quorum requirements applicable to the Board under Sections 3.8, 3.9, 3.10 and 3.11. Meetings of a Neighborhood Committee shall be open to all Owners of Units in the Neighborhood and their representatives. Members of a Neighborhood Committee may act by unanimous written consent in lieu of a meeting.

ARTICLE VI MISCELLANEOUS

6.1 Fiscal Year

The Association's fiscal year shall be the calendar year unless the Board establishes a different fiscal year by resolution.

6.2 Parliamentary Rules

Except as may be modified by Board resolution, *Robert's Rules of Order* (current edition) shall govern the conduct of Association proceedings when not in conflict with North Carolina law or the Governing Documents.

6.3 Conflicts

If there are conflicts among the provisions of North Carolina law, the Articles of Incorporation, the Declaration, and these Bylaws, the provisions of North Carolina law, the Declaration, the Articles of Incorporation, and the Bylaws (in that order) shall prevail.

6.4 Books and Records

- (a) Inspection by Members and Mortgagees. The Board shall make available for inspection and copying by any holder, insurer or guarantor of a first Mortgage on a Unit, any Member, or the duly appointed representative of any of the foregoing at any reasonable time and for a purpose reasonably related to his or her interest in a Unit: the Governing Documents, the membership register, books of account, and the minutes of meetings of the Members, the Board, and committees. The Board shall provide for such inspection to take place at the Association's office or at such other place within Masonboro Village as the Board shall designate.
- (b) Rules for Inspection. The Board shall establish rules with respect to (i) notice to be given to the custodian of the records; (ii) hours and days of the week when such an inspection may be made; and (iii) payment of the cost of reproducing documents requested.
- (c) Inspection by Directors. Every director shall have the absolute right at any reasonable time to inspect all books, records, and documents of the Association

and the physical properties owned or controlled by the Association and the physical properties owned or controlled by the Association. A director's right of inspection includes the right to make a copy of relevant documents at the Association's expense.

6.5 Notices

Except as otherwise provided in the Declaration or these Bylaws, all notices, demands, bills, statements or other communications under the Declaration or these Bylaws shall be in writing and shall be deemed to have been duly given if delivered personally or if sent by United States mail, first class postage prepaid:

- (a) if to member or Voting Member, at the address which the Member or Voting Member has designated in writing and filed with the Secretary or, if no such address has been designated, at the address of the Unit of such Member or Voting Member.
- (b) if to the Association, the Board, or the managing agent, at the principal office of the Association or the managing agent, or at such other address as shall be designated by notice in writing to the Members pursuant to this Section; or
- (c) if to any committee, at the principal address of the Association or at such other address as shall be designated by notice in writing to the Members pursuant to this Section.

6.6 Amendment

- (a) By Class "B" Member. Prior to termination of the Class "B" Control Period, the Class "B" Member may unilaterally amend these Bylaws. Thereafter, the Class "B" Member may unilaterally amend these Bylaws at any time and from time to time if such amendment is necessary (i) to bring any provision into compliance with any applicable governmental statute, rule or regulation, or judicial determination; (ii) to enable any reputable title insurance company to issue title insurance coverage on the Units; or (iii) to enable any institutional or governmental lender, purchaser, insurer or guarantor of mortgage loans, including, for example, the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation, to make, purchase, insure or guarantee mortgage loans on the Units. However, any such amendment shall not adversely affect the title to any Unit unless the Owner shall consent thereto in writing. So long as the Class "B" membership exists, the Class "B" Member may unilaterally amend these Bylaws for any other purpose, provided the amendment has no material adverse effect upon any other member.

- (b) **By Members Generally.** Except as provided above, these Bylaws may be amended only by the affirmative vote or written consent, or any combination thereof, of Voting Members representing 51% of the total Class "A" votes in the Association, and the consent of the Class "B" Member, if such exists. In addition, the approval requirements set forth in the Declaration shall be met, if applicable. Notwithstanding the above, the percentage of votes necessary to amend a specific clause shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause.
- (c) **Validity and Effective Date of Amendments.** Amendments to these Bylaws shall become effective upon Recordation unless a later effective date is specified therein. Any procedural challenge to an amendment must be made within six months of its Recordation, or such amendment shall be presumed to have been validly adopted. In no event shall a change of conditions or circumstances operate to amend any provisions of these Bylaws.

No amendment may remove, revoke or modify any right or privilege of Declarant or the Class "B" Member without the written consent of Declarant, the Class "B" Member, or the assignee of such right or privilege.

CERTIFICATION

I, the undersigned, do hereby certify:

That I am the duly elected and acting Secretary of The Masonboro Village Homeowners' Association, Inc., a North Carolina corporation;

That the foregoing Bylaws constitute the original Bylaws of said Association, as duly adopted at a meeting of the Board of Directors thereof held on the ____ day of _____, 2002.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Association this _____, _____, 2002.

Secretary

(Corporate Seal)

**CONSENT OF BOARD OF DIRECTORS
OF
THE MASONBORO VILLAGE HOMEOWNERS' ASSOCIATION, INC.
TO ACTION WITHOUT MEETING
IN LIEU OF ORGANIZATION MEETING OF DIRECTORS**

The undersigned, being all the initial Directors of The Masonboro Village Homeowners' Association, Inc. (the "Association"), do hereby adopt the following resolutions by signing their written consents hereto, in lieu of holding an organization meeting:

WHEREAS, the Articles of Incorporation of the Association have been filed in the office of the Secretary of State of North Carolina on _____, 2002, and the Corporation now exists as a nonprofit corporation under Chapter 55A of the North Carolina General Statutes; and

WHEREAS, the initial Board of Directors consists of John Baker, _____ and _____, and they now desire to adopt the resolutions set forth herein in lieu of an organization meeting of the Board of Directors.

NOW, THEREFORE, the following actions are taken by the Board of Directors of the Association:

ADOPTION OF BYLAWS

RESOLVED, that the Bylaws, a copy of which are attached hereto, are hereby adopted as the Bylaws of the Association.

ELECTION OF OFFICERS

RESOLVED, that the following persons are hereby elected to the offices set opposite their respective names, to serve until the next Annual Meeting of Directors or until their successors shall be duly elected and qualified:

John Baker, President

_____, Vice President

_____, Secretary/Treasurer

DESIGNATION OF DEPOSITORIES

RESOLVED, that _____ is hereby designated a depository for the funds of the Association;

RESOLVED, that any person holding the office of Treasurer, being a duly elected officer of the Corporation, be hereby authorized to sign checks in the name of the Corporation drawn on the corporate account including checks payable to the order, for whatever purpose, of the officer signing same; that a certified copy of this resolution be sent to said bank; and said bank is hereby authorized to honor checks of the Association when signed by any two of said officers unless and until it be expressly notified in writing to the contrary by the Association, and said bank shall at all times be protected in recognizing as such officers the persons named in a certificate signed by the Secretary of the Association, over the corporate seal, until and unless it be so notified in writing that said officers have been changed, and shall in writing acknowledge receipt of such notification; and further

RESOLVED, that the Secretary of the Corporation shall certify to any bank which is a depository of the Association the name of the person who is at present authorized to act on behalf of the Association under the foregoing resolutions or any future resolutions adopted by this Board and such officer shall certify the amounts, if any, which such persons are authorized to draw and sign the instruments under the foregoing resolutions; and further

RESOLVED, that the Secretary of the Corporation may certify these resolutions on a pre-printed corporate resolution of the appropriate bank and a copy of such pre-printed corporate resolution of any such bank shall be inserted in this Minute Book.

MISCELLANEOUS ITEMS IN ORDER TO COMPLETE
THE ORGANIZATION OF THE CORPORATION

RESOLVED, that the seal, an impression of which is herewith affixed, be adopted as the corporate seal of the Corporation; and further

RESOLVED that a year ending December 31 shall be the taxable year of the Corporation; and further

RESOLVED, that the Treasurer, or any proper officer of the Association be and hereby is authorized to pay or cause to be paid all fees and expenses incident and necessary to the organization of the Corporation; and further

RESOLVED, that the Treasurer, or any other proper officer of the Association is hereby authorized to pay or cause to be paid any costs previously advanced on behalf of the Association or expenses incurred on behalf of the Corporation prior to or subsequent to its organization; and further

RESOLVED, that the officers of the Corporation be and they are authorized and directed to do and perform all acts and things necessary and appropriate to commence and carry on the business which the Corporation was formed to conduct.

This action is effective the _____ day of _____, 2002.

BOARD OF DIRECTORS:



John Baker

