

BY-LAWS
OF
HEWLETT'S RUN
HOMEOWNERS ASSOCIATION, INC.

ARTICLE I.

General Provisions

SECTION 1. - IDENTITY: These are the By-Laws of HEWLETT'S RUN HOMEOWNERS ASSOCIATION, INC. a nonprofit corporation organized pursuant to the laws of the State of North Carolina; the Articles of Incorporation for which have been recorded in the Office of the Secretary of State for the State of North Carolina.

SECTION 2. - INCORPORATION: The provisions of these By-Laws supplement and are enacted pursuant to the provisions of the above referenced Articles of Incorporation and are applicable to the record owners of lots located upon or within that certain development of real property known as HEWLETT'S RUN, as shown upon a map thereof recorded in Map Book _____, at Page _____, of the New Hanover County Registry and any annexed areas as provided for in the Declaration of Covenants and Restrictions recorded in Book _____, at Page _____, of the New Hanover County Registry (the "Declaration").

SECTION 3. - APPLICATION: These By-Laws, in conjunction with the above referenced Articles of Incorporation and the Declaration, shall govern the affairs, rights, privileges, duties and obligations of the Association, all owners, the Developer, all mortgagees, beneficiaries under Deeds of Trust, Lessees and occupants of all lots subject hereto, their employees and all others who may use or enjoy any of the property subjected hereto, and the acceptance of a Deed for or conveyance of, or the succeeding to title to, or the entering into a lease for, or the actual occupancy of, or use of a lot, the common areas, streets, and amenities, or any of the improvements thereon by any of the above shall constitute an acceptance by the same of the provisions of these By-Laws, the Rules and Regulations enacted pursuant hereto and the provisions of the herein above referenced Articles, and an agreement to comply and abide by the same.

SECTION 4. - PRINCIPAL OFFICE: The principal office of the Association and of the Board of Directors shall be located at 428 Eastwood Road, Wilmington, New Hanover County, North Carolina, 28403.

ARTICLE II

Membership

SECTION 1. - IDENTIFICATION: The Association shall have two classes of voting memberships:

Class A. Class A members shall be those Owners, with the exception of the Developer until its Class B membership has converted to Class A membership, who own lots within HEWLETT'S RUN. Each Class A member shall be entitled to one vote for each lot owned.

Class B. The Class B member shall be the Developer (Declarant), and it shall be entitled to three (3) votes for each lot owned. The Class B membership shall cease and be converted to a Class A membership upon the happening of either of the following events, whichever occurs earlier: (a) when the total votes outstanding in the Class A membership equals the total votes outstanding in the Class B membership, or on December 31, 2000.

SECTION 2. - RECORDS: The Secretary of the Association shall maintain at the principal office of the Association a register of all of the current owners of memberships in the Association and the mailing address of each owner.

SECTION 3. - VOTING RIGHTS: If a membership is owned by one (1) person his right to vote shall be established by the record title to his lot. If a membership is owned by more than one (1) person, or is under lease, the person entitled to cast the vote for such membership shall be designated by a certificate signed by all of the record owners of such membership and filed with the Secretary of the Association. If a membership is owned by a corporation, the person entitled to cast the vote for that membership shall be designated by a certificate signed by the President or Vice President and attested by the Secretary or the Assistant Secretary of such corporation and filed with the Secretary of the Association. If a membership is owned by a partnership, whether general or limited, or a joint venture, the certificate designating the voting member shall be signed by all partners or joint venturers, as the case may be. Such certificates shall be valid until revoked or superceded by a subsequent certificate or until a change occurs in the ownership of the membership concerned. A certificate designating the person entitled to cast the vote of a membership may be revoked by an owner of such membership. If such a certificate is not on file, the vote of such membership shall not be considered in determining the requirement for a quorum nor for any other purpose under these By-Laws.

SECTION 4. - MORTGAGEES AND TRUSTEES UNDER DEEDS OF TRUST: In the event that any such lot is conveyed by mortgage or by Deed of Trust, then the rights, duties, obligations, powers and privileges appurtenant to the membership appurtenant to such lot

shall be exercised by the owner of the equity in the lot, and not by the mortgagee under any mortgage or the trustee or beneficiary under any Deed of Trust against such lot.

SECTION 5. - ANNUAL MEETINGS: Subject to the provisions of Article VI of these By-Laws, the annual meetings of the Association shall be held on the last Thursday in June of each year unless such date shall occur on a legal holiday, in which event, the meeting shall be held on the next succeeding business day. The purpose of the annual meeting shall be for the election of the Directors of the Association for the succeeding year and for the transaction of any and all business of the Association as may properly come before the meeting.

SECTION 6. - SPECIAL MEETINGS: It shall be the duty of the President to call a special meeting of the membership if so directed by resolution of the Board of directors or upon a petition calling for a special meeting presented to the Secretary of the Association and signed by at least twenty-five percent (25%) in interest of members in the Association. The notice of any special meeting shall state the time, place and purpose of the meeting. No business shall be transacted at a special meeting except as stated in the notice.

SECTION 7. - NOTICE OF MEETINGS: The Secretary shall mail to each owner of a membership in the Association notice of each annual or special meeting of the membership at least ten (10) days but not more than sixty (60) days prior to such meeting, stating the purpose thereof as well as the time and place where it is to be held. Said notice shall be mailed to the address which the owner of each membership has designated to the Secretary and maintained by the Secretary on his current register of owners. The mailing of a notice of a meeting in the manner provided in this section shall be considered service of notice.

SECTION 8. - ADJOURNMENT OF MEETINGS: If any meeting of the membership cannot be held because a quorum has not attended, a majority of the membership who are present at such meeting, either in person or by proxy, may adjourn the meeting to a time not more than forty-eight (48) hours from the time the original meeting was called.

SECTION 9. - QUORUM: A quorum at all membership meetings shall consist of persons representing and entitled to cast the vote appurtenant to at least fifty one percent (51%) of the memberships in the Association. The acts approved by a majority of the votes present at a meeting at which a quorum is present shall constitute the acts of the membership, except when approval by a greater number of members is required by the Declaration, these By-Laws or by law; but those present at any meeting, though less than a quorum, may adjourn said meeting to a future time.

SECTION 10. - PROXIES: The vote appurtenant to each membership may be cast by the person designated as entitled to cast such vote by proxy. The designation of any such proxy shall be

made in writing to the Secretary, and shall be revocable at any time by written notice to the Secretary by the owner of the membership to which said vote is appurtenant. Such proxy shall be valid only for the particular meeting designated in the proxy and must be filed with the Secretary before the appointed time of the meeting or any adjournment of such meeting.

SECTION 11. - PLACE OF MEETINGS: Meetings of the Association's membership shall be held at the principal office of the Association or at such other suitable place convenient to the membership as may be designated by the Board of Directors.

SECTION 12. - ORDER OF BUSINESS: The order of business at all meetings of the Association shall be as follows: (a) roll call; (b) proof of notice of meeting; (c) reading of minutes of preceding meeting; (d) reports of officers; (e) reports of Board of Directors; (f) reports of committees; (g) election of members of the Board of Directors, if necessary, (h) unfinished business; and (i) new business.

ARTICLE III.

Board of Directors

The property, affairs and business of the Association shall be managed by the Board of Directors; provided, however, that the provisions of this Article are subject to the provisions of Article VI of these By-Laws.

SECTION 1. - NUMBER, TERM OF OFFICE AND QUALIFICATIONS: The number constituting the Board of Directors shall be not less than three (3) nor more than seven (7). Each Director shall continue in office until the annual meeting of the membership held next after his election and until his successor shall have been elected and qualified or until his death or until he shall resign or shall have become disqualified or removed from office. Directors shall be members of the Association.

SECTION 2. - ELECTION OF DIRECTORS: Except for the first Board of Directors, which is appointed in the Articles of Incorporation, and subject to the provisions of Article VII hereof, the election of the Board of Directors shall be conducted in the following manner: (a) election of Directors shall be held at the annual meeting of the membership; (b) nominations for Directorships shall be made from the floor by the membership or by the Board of Directors; (c) the election shall be by written ballot (unless dispensed with by unanimous consent) and by a plurality of the votes cast, each person representing a membership entitled to vote being entitled to cast one (1) vote for each of as many nominees as there are Directorships to be filled. There shall be no cumulative voting.

SECTION 3. - REMOVAL OF DIRECTORS: Except for the first Board of Directors, which is appointed in the Articles of Incorporation, and subject to the provisions of Article VII hereof,

any Director may be removed by concurrence of two-thirds (2/3rds) of the votes of the membership of the association present at a special meeting of the membership called for the consideration of such removal. The vacancy in the Board of Directors so created shall be filled by the members of the Association at the same meeting.

SECTION 4. - ORGANIZATIONAL MEETING: The organizational meeting of a newly elected board of Directors shall be held within ten (10) days of their election at such place and time as shall be fixed by the Directors at the meeting at which they were elected, and no further notice of the organizational meeting shall be necessary.

SECTION 5. - 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 members of the Board of Directors, but at least two (2) such meetings shall be held during each fiscal year. Notice of the regular meetings of the Board of Directors shall be given to each member of the Board of Directors, by personal delivery, mail or telegraph, at least five (5) business days prior to the day named for such meetings.

SECTION 6. - SPECIAL MEETINGS: Special meetings of the Board of Directors may be called by the President of the Association on five (5) business day's notice to each member of the Board of Directors, given 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 any member of the Board of Directors.

SECTION 7. - WAIVER OF NOTICE: Any member of the Board of Directors 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 member of the Board of Directors at any meeting of the Board shall constitute a waiver of notice by him of the time and place thereof. If all of the members of the Board of Directors are present at any meeting of the Board, no notice shall be required and any business may be transacted at such meeting.

SECTION 8. - QUORUM: At all meetings of the Board of Directors a majority of the members thereof shall constitute a quorum for the transaction of business, and the votes of a majority of the members of the Board of Directors present at such a meeting at which a quorum is present shall constitute the decision of the Board of Directors. If at any meeting of the Board of directors there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time. At any such adjourned meeting at which a quorum is present any business which might have been transacted at the meeting originally called, may be transacted without further notice.

SECTION 9. - COMPENSATION: No member of the Board of Directors shall receive any compensation from the Association for acting as such.

SECTION 10. - JOINDER IN MEETING BY APPROVAL OF MINUTES: The joinder of a Director in the action of a meeting by signing and concurring with the minutes of that meeting shall constitute the presence of such Director at such meeting for the purpose of determining a quorum.

SECTION 11. - PRESIDING OFFICER AT DIRECTORS' MEETINGS: The presiding officer of a Directors' meeting shall be the President of the Association. In the absence of the presiding officer the Directors present shall designate one (1) of their number to preside.

SECTION 12. - ORDER OF BUSINESS AT DIRECTORS MEETINGS: The order of business at Directors' meetings shall be: (a) the calling of the roll; (b) the proof of due notice of the meeting; (c) reading and disposal of any unapproved minutes; (d) the reports of officers and committees; (e) the election of officers; (f) unfinished business; (g) new business; and (h) adjournment.

SECTION 13. - POWERS AND DUTIES: The Board of Directors shall have the powers and duties necessary for the administration of the affairs of the Association except such powers and duties as by law or by these By-Laws may not be delegated to the Board of directors by the membership of the Association. The powers and duties to be exercised and performed by the Board of Directors shall include, but shall not be limited to, the following:

a. the operation, care, upkeep and maintenance of the streets, common areas and amenities, and the improvements thereon;

b. the determination of the amounts required for the operation, maintenance, care and upkeep of the streets, common areas and the amenities, and the improvements thereto, and the amounts required for the general operation of the Association;

c. the levying and collection of the assessments from the membership owners;

d. the employment and dismissal of personnel as necessary for the efficient maintenance of the development and operation of the Association;

e. the adoption and the amendment of rules and regulations governing the operation of the Association and the use and enjoyment of the streets, common areas and amenities;

f. the opening and maintaining of bank accounts on behalf of the Association and designating the signatories required therefor;

g. the purchasing, leasing or otherwise acquiring in the name of the Association or its designee, corporate or otherwise, on behalf of all members of the Association, lots offered for sale or lease;

h. the purchasing of lots at foreclosure or other judicial sales in the name of the Association, or its designee, corporate or otherwise, on behalf of the membership;

i. the selling, conveying, leasing, mortgaging of, voting the votes appurtenant to (other than for the election of members of the Board of Directors), or otherwise dealing with the lots acquired by, and subleasing lots by the Board of Directors on behalf of the membership of the Association;

j. the organizing of the corporation to act as designee of the Board of Directors in acquiring title to or leasing lots by the Board of Directors on behalf of the membership of the Association;

k. the purchasing and maintaining of insurance for the streets, common areas and amenities, and the improvements thereto pursuant to the provisions of these By-Laws;

l. the making of repairs, additions and improvements to, or alterations, of, the property, and repairs to and restoration of any property belonging to the Association, in accordance with the other provisions of these By-Laws, after damage or destruction by fire or other casualty, or as a result of condemnation or eminent domain proceedings;

m. the appointing of committees to be composed of members of the Association to aid in governance of the Association in such numbers and for such specific purposes as they may determine necessary and proper;

n. the adoption of a seal for the Association;

o. the enforcing of the obligations of the members of the Association, allocating income and expenses of the Association and doing anything and everything else necessary and proper for the sound management of the Association;

p. the levying of fines or expenses against the members of the Association, suspension of voting rights of a member during any period in which such member shall be in default in the payment of assessments levied by the association. Such rights may also be suspended after notice for a period not to exceed 60 days for violation of published rules and regulations.

q. adjusting and settling claims under insurance policies obtained pursuant to the By-Laws and executing and delivering releases on settlements of such claims on behalf of all lot owners, all holders of mortgages, Deeds of Trust or other

liens on the lots and all owners of any other interest in the property.

r. employ or engage a manager, an independent contractor, attorney or accountant or such other employees and agents as they deem necessary, and to prescribe their duties. Provided, however, any such person so hired shall serve only at the pleasure of the Board of Directors, and no Board Directors shall have the authority to bind any succeeding Board of Directors to any such contract.

SECTION 14. - LIABILITY OF THE BOARD OF DIRECTORS: The members of the Board of Directors shall not be liable to the Association or any of its members for any mistake of judgment, negligence, or otherwise, except for their own individual willful misconduct or bad faith. The members of the Association shall indemnify and hold harmless each member of the Board of Directors against all contractual liability to others arising out of contracts made by the Board of Directors on behalf of the Association unless any such contract shall have been made in bad faith or contrary to the provision of the Articles of Incorporation or these By-Laws. It is intended that the members of the Board of Directors shall have no personal liability with respect to any contract made by them on behalf of the Association. It is also intended that the liability of any member of the Association arising out of any contract made by the Board of Directors or out of the indemnity in favor of the members of the Board of Directors shall be limited to such proportions of the total liability thereunder as his interest in the Association bears to the interest of all members of the Association in the Association. Every agreement made by the Board of Directors on behalf of the Association shall provide that the members of the Board of Directors are acting only as agents for the Association and shall have no personal liability thereunder (except as members of the Association), and that each member of the Association's liability thereunder shall be limited to such proportion of the total liability thereunder as his interest in the Association bears to the interest of all member of the Association.

SECTION 15. - FIDELITY BONDS: The Board of Directors may obtain adequate fidelity bonds for all officers and employees of the Association. The premiums on such bonds shall constitute an expense of operating the affairs of the Association.

ARTICLE IV.

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 Board of Directors may appoint an Assistant Treasurer and Assistant Secretaries, and such other officers as in its judgment may be necessary. The president and Vice President must be members of the Board of Directors. All

other officers need not be member of the Board of Directors or of the Association.

SECTION 2. - ELECTION OF OFFICERS: Officers shall be elected annually by the Board of Directors at the organizational meeting of each new Board of Directors and shall hold office at the pleasure of the Board of Directors and until their successors are elected.

SECTION 3. - REMOVAL OF OFFICERS: Upon the affirmative vote of the majority of the members of the Association or members of the Board of Directors, any officer may be removed, either with or without cause; and his successor may be elected at any regular meeting of the Board of Directors or at any special meeting of the Board of Directors called for such purpose.

SECTION 4. - PRESIDENT: The President shall be the chief executive officer of the Association. He shall preside at all meetings of the membership and at all meetings of the Board of Directors. He shall have all of the general powers and duties which are incident to the office of President of a corporation organized under the Business Corporation Laws of the State of North Carolina, including, but not limited to, the power to appoint from among the membership any committee which he deems 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 or Vice President is able to act, the Board of Directors shall appoint some other member of the Board of Directors 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 imposed upon him by the Board of Directors or by the President.

SECTION 6. - SECRETARY: The Secretary shall keep the minutes of all meetings of the membership and the Board of Directors; he shall have charge of all books, paper, accounts and records of the Board of Directors as the Board of Directors may direct; and he shall, in general, perform all of the duties incident to the office of Secretary of a corporation organized under the Business Corporation laws of the State of North Carolina.

SECTION 7. - TREASURER: The Treasurer shall have the responsibility for Association funds and securities and shall be responsible for keeping full and accurate financial records and books of accounts showing all receipts and disbursements, and for the preparation of all required financial statements. He shall be responsible for the deposit of all monies and other valuable effects in the name of the Board of Directors, in such depositories as may from time to time be designated by the Board of Directors, and he shall, in general, perform all of the duties

incident to the office of the Treasurer of a corporation organized under the Business Corporation laws of the State of North Carolina.

SECTION 8. - COMPENSATION: No officer shall receive any compensation from the Association for acting as such. However, the Board of Directors may appoint a manager to handle the day to day affairs of the Association, and may establish a rate of compensation and salary for said manager.

SECTION 9. - EXECUTION OF INSTRUMENTS: All instruments, including, but not limited to, agreements, contracts, Deeds or leases of the Association shall be executed in the name of the Association by the President, Vice President or Assistance Vice President and attested to by the Secretary or Assistance Secretary of the Association. All check of the Association are to be executed by such person or persons as may be designated by the Board of Directors.

ARTICLE V.

Operation of the Association

SECTION 1. - RULE MAKING: The Board of Directors shall promulgate and establish, pursuant to the provision set out hereinbelow, reasonable rules and regulations governing the use, enjoyment, maintenance, repair of and additions or alterations to the streets, common areas and amenities if any, and the improvements thereon.

Subsection 1.1 - PROCEDURES: The Board of Directors, or a rule making committee specifically appointed by the President, shall formulate reasonable rules and regulations, or amendments or modifications thereto, to be proposed to the membership of the Association. Such proposals may be considered by the membership of the Association for adoption either at the annual meeting of the membership or at a special meeting of the membership called by the President specifically for the consideration of the adoption of such proposals. All such proposals shall be stated in writing and sent to the owners of the memberships in the Association in any notice of the special meeting called for the consideration thereof, or at least fifteen (15) days prior to the annual meeting of the membership of the Association at which they will be considered. At such meeting such proposed rules and regulations shall be considered new business of the Association. In order to be adopted as rules and regulation, amendments or modifications thereof, of the Association such proposed rules and regulations must receive assent from two-thirds (2/3) of the votes of the entire membership of the Association present in person or by proxy at such meeting.

Subsection 1.2 - AMENDMENT, MODIFICATION, ADDITIONS OR REPEAL: In addition to the above, any member of the Association may propose a modification, amendment, addition to or repeal of any and all rules and regulations of the Association by stating the same in writing to the Board of Directors. If any such member shall have obtained for such proposal the signature of at least twenty-five percent (25%) of the membership owners in the Association, then the Board of directors shall submit such proposal to the Association at the next annual meeting of the Association for consideration at a special meeting of the Association called pursuant to a request therefor made in such proposal when submitted to the Board of Directors. Adoption of any such proposal shall be as stated in Subsection 1.1. hereinabove.

Subsection 1.3. - PROHIBITIONS: No rule or regulation, nor amendment, modification, addition to or repeal of any or all of the rules and regulations of the Association shall discriminate against any lot owner or against any lot or group of lots unless the owners thereof so affected shall consent in writing; nor shall any of the above change any lot nor the common areas and amenities, nor shall any of the above increase any owner's share in the common expenses of the Association or change the voting rights of any member unless the owner of the membership appurtenant to the lot so affected and all record owners of liens thereon shall join in the execution of such rule, regulation, amendment, modification, addition to or repeal of the same.

Subsection 1.4. - RECORDING: A copy of all rules and regulations or amendments, additions, modifications to or repeals of rules and regulations of the Association shall be certified by the President and Secretary of the Association as having been duly adopted by the Association and shall be effective from the date the same is recorded in the Office of the Register of Deeds of New Hanover County, North Carolina.

SECTION 2. - INSURANCE: The Board of Directors shall be required to obtain and maintain, to the extent possible and feasible in the exercise of their discretion, the following insurance:

Subsection 2.1. - FIRE INSURANCE with extended coverage, vandalism and malicious mischief endorsements, insuring all improvements upon the streets, common areas and all the amenities if any, and covering the interest of the Association, the Board of Directors, and all owners and their mortgagees or beneficiaries under Deeds of Trust, as their respective interest may appear, in an amount at least equal to the full replacement value of all structures insured, without

deduction for depreciation; each of said policies shall contain a North Carolina standard mortgage clause in favor of each mortgagee or beneficiary under a Deed of Trust of a lot which shall provide that the loss, thereunder shall be payable to such mortgagee or beneficiary under Deed of Trust as its interest may appear; subject, however, to the loss of payment provisions in favor of the Board of Directors hereinafter set forth.

Subsection 2.2 - FLOOD INSURANCE covering all of the lots when required or deemed necessary.

Subsection 2.3 - PUBLIC LIABILITY in such limits as the Board of Directors may, from time to time, determine covering each member of the Board of Directors, each officer of the Association, the association and each owner of a lot; such public liability coverage shall also cover cross-liability claims of one insured against another.

Subsection 2.4. Such other insurance as the Board of Directors may determine is necessary for the protection of the development, the Association, its Directors, officers and members.

Subsection 2.5. - PREMIUMS: The premiums for all such insurance shall be an annual expense of the Association, and as such, shall constitute a portion of the annual assessment to be levied against each member of the Association pursuant to the provisions of these By-Laws.

Subsection 2.6. - ADJUSTMENT FOR LOSS: All such insurance policies shall provide that adjustment of loss shall be made by the Board of Directors and that the net proceeds thereof shall be payable to the Board of Directors.

Subsection 2.7. - WAIVERS, CANCELLATIONS, MODIFICATIONS, RENEWALS: All policies of physical damage insurance shall contain waivers of subrogation and waiver of any defense based on coinsurance or other insurance or of invalidity arising from any acts of the insured and of prorata reduction of liability, and shall provide that such policies may not be cancelled or substantially modified without at least ten (10) days' prior written notice to all insureds, including all mortgagees and beneficiaries under Deeds of Trust at least ten (10) days prior to expiration of the then current policies. Prior to obtaining any policy of fire insurance or any renewal thereof, the Board of Directors shall obtain an appraisal from a fire insurance company or otherwise of the full replacement value of the commons areas, the amenities, and all improvements thereon, without deduction for depreciation, for

the purpose of determining the amount of fire insurance to be effected pursuant hereto.

Subsection 2.8 - OWNERS' INSURANCE: The owners of lots shall not be prohibited from carrying other insurance for their own benefit provided that such policies shall contain waivers of subrogation and further provided that the liability of the carriers issuing insurance obtained by the Board of Directors shall not be affected or diminished by reason of any such additional insurance carried by any lot owner.

Subsection 2.9. - INITIAL MINIMUM AMOUNTS: Until the first regular meeting of the Board of Directors following the first annual meeting of the membership of the Association, the Board of Directors shall obtain and maintain all such insurance in the following amounts:

- a. Fire insurance in an amount of not less than \$10,000.00 for the streets, common area, the amenities if any, and the improvements thereon;
- b. Public liability insurance in an amount of not less than One Million Dollars (\$1,000,000.00) covering all claims for personal injury arising out of one occurrence, and not less than One Hundred Thousand Dollars (\$100,000.00) covering all claims for property damage arising out of one occurrence.

Subsection 2.10. - REPAIR OR RECONSTRUCTION AFTER CASUALTY: In the event of damage to or destruction of any or all of the streets, common area and amenities if any, and/or improvements to the common areas as a result of fire or other casualty, the Board of Directors shall arrange for the prompt repair and restoration of all damage. The Board of Directors shall disburse the proceeds of all insurance policies to the contractor engaged in such repair and restoration in appropriate progress payments. Any cost of such repair and restoration in excess of the net insurance proceeds received by or payable to the Board of Directors shall constitute a common expense of the Association.

In the event of a repair or restoration of the improvements to the property and in the event that the net proceeds of insurance received by or payable to the Board of Directors shall exceed the cost of such repair or restoration, then such excess shall be held by the Association in its Capital Improvement account.

Whenever in this Subsection the words "promptly repair" or "prompt repair" are used, it shall mean repairs are to begin not more than sixty (60) days from the date of

receipt of the Board of Directors of proceeds of insurance on account of such damage or destruction, whether or not sufficient to pay the estimated costs of such work. Wherever the words "promptly resolve" are used hereinabove, it shall mean not more than sixty (60) days from the date the Board of Directors notifies the interested members of the Association that it holds proceeds of insurance on account of such damage or destruction and that such proceeds are not sufficient to pay the estimated costs of such work, as the case may be.

SECTION 2. - INCONSISTENCIES: If there are any inconsistencies between the terms of this Section 2 and Sections 5 & 6 of the Declaration, the terms of the Declaration shall control.

SECTION 3. - MAINTENANCE: The Board of Directors shall provide for the upkeep, care, preservation, protection and maintenance of the streets, common areas, amenities, and the improvement thereon, as follows:

a. repair and repave, when necessary, all pavements existing upon the streets and other common area; unless accepted for maintenance by the City of Wilmington.

b. upkeep, maintain and preserve all grasses, lawns, trees, shrubs, gardens and other vegetation maintained upon the common areas; and

c. repair, reconstruct, repaint, and maintain any and all other improvements, of whatever nature, made to the common areas and amenities if any.

Subsection 3.1 - RIGHT OF ACCESS: For the purpose solely of performing all of the above described maintenance, etc., the Association, through its duly authorized agents or employees, shall have the right, after reasonable notice to any and all owners concerned to enter upon any lot, at any reasonable hour of any day.

Subsection 3.2. - OWNERS' REPAIRS: Any maintenance, repair, replacement, etc., to any of the streets, common areas, amenities if any, or any of the improvements thereon, caused by the negligence, misuse, neglect or willful act of any owner, his family, tenants, guest or invitees shall be performed by the Association at the sole cost and expense of said owner, said cost and expense therefor to be added to said owner's annual assessment.

Subsection 3.3. - EXPENSE: All maintenance, repair, reconstruction, replacement, etc., as outlined hereinabove, is to be performed by or

through the Board of Directors and the cost and expense thereof shall, except as provided in Subsection 3.2. hereinabove, be an annual expense of the Association.

SECTION 4. - FISCAL MANAGEMENT: The Board of Directors shall, from time to time, and at least annually, prepare a budget for the Association, determining the projected annual costs to the Association of performing all of the duties of and fulfilling all of the obligations of the Association. These costs shall include all of the costs incurred by the Association in the performance of those duties and obligations outlined in the Articles of Incorporation, applicable to the development, and Article III., Section 13., and Article V. of these By-Laws, as well as the costs necessary for the efficient management of the Association (including amounts for an operations reserve and a capital improvements reserve, if deemed necessary by the Board of Directors). The budget, so prepared, shall be submitted to the membership of the Association for approval at the annual meeting of the membership. The proposed budget must be approved by a vote of at least fifty-one percent (51%) of the votes of the entire membership of the Association, represented in person or by proxy at such meeting.

Subsection 4.1. - ANNUAL ASSESSMENTS: After approval of the proposed budget of the Association, the Board of Directors shall assess each lot within the developments subject hereto an equal amount of the projected annual costs to the Association as described hereinabove, subject to the provisions of Article VI (6) hereof, hereinafter set forth. The Board of Directors shall cause the Secretary of the Association to provide each member of the Association a statement of the annual assessment against his lot in writing, stating the date payment thereof is due at least thirty (30) days prior to the due date. All assessments shall be due and payable on the date and in such installments, if allowed, as the Board of Directors may determine.

Subsection 4.2. - NATURE AND ENFORCEMENT OF ASSESSMENTS: The nature and enforcement of the collection of assessments is set forth in the Declaration of Covenants, Conditions and Restrictions, which are recorded in the New Hanover County Registry.

Subsection 4.3. - SUBORDINATION: The lien for unpaid assessment provided for hereinabove shall be subordinate to the lien of any first mortgage or first Deed of Trust against any lot that secures an indebtedness due to an institutional lender.

SECTION 5. - RECORDS AND AUDITS: The Board of Directors shall keep detailed records of the action of the Board of Direc-

tors, minutes of the meeting of the Board of Directors, minutes of the meetings of the membership of the Association and financial records and books of account of the Association, including a 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 annual assessment, and other assessments, against each lot, the date when due, the amount paid thereon, and the balance remaining unpaid. A written report summarizing all receipts and expenses of the Association shall be rendered by the Board of Directors to all members of the Association at least annually. In addition, an annual report of the receipts and disbursements of the Association shall be rendered by the Board of Directors to all members of the Association who have requested the same, promptly after the end of each fiscal year. Each member of the Association shall be permitted to examine all of the books and accounts of the Association at reasonable times on business days, but not more than once a month.

SECTION 6. - CONDEMNATION: In the event of a taking in condemnation or by eminent domain of part or all of the property, the award made for such taking shall be payable to the Board of Directors, and the Board of Directors shall disburse the net proceeds of such award in the same manner as they are required to distribute insurance proceeds where there is no repair or restoration of the damage, as provided in these By-Laws.

ARTICLE VI.

Parliamentary Rules

Robert's Rules of Order (latest edition) shall govern the conduct of all Association meeting, not in conflict with the Articles of Incorporation, the Declaration of Covenants, Conditions and Restrictions, and these By-Laws.

ARTICLE VII.

Amendments

The By-Laws may be amended in the following manner:
(a) any member of the Association may propose any amendment or modification to these By-Laws by submitting the same in writing to the President of the Association, (b) in order to qualify for consideration by the Association, any such amendment or modification must be signed by at least twenty-five percent (25%) in interests of the membership in the Association; (c) upon receipt of such proposed amendment or modification, the President of the Association shall immediately follow the procedures outline hereinabove under Article II., Section 6., entitled SPECIAL MEETINGS; (d) any such proposed amendment or modification in order to become a part of these By-Laws must be approved by seventy-five percent (75%) of the votes of the entire membership of the Association present in person or by proxy at such meeting; provided, however, that no amendment or modification shall

discriminate against any owner, any lot class or group of owners, or lots unless all of the owners so affected so consent; and further, no amendment or modification shall change any lot, the common areas, nor increase any owners' assessment, nor change the voting rights of any members unless the owner or owners of the memberships or lots so affected and all holders of liens against such owner's or owners' lots shall approve in writing such amendment or modification. So long as there is a Class B membership the Federal Housing Administration and/or the Veterans Administration shall have the right to veto amendments.

ARTICLE VIII.

Miscellaneous

SECTION 1. - NOTICES: All notices to the Board of Directors shall be sent by certified mail, return receipt requested, to the principal office of the Board of Directors. All notices to owners shall be sent by U.S. mail, postage prepaid, to such addresses as may have been designated by such owners in writing to the Secretary of the Association. All notices to mortgagees of or beneficiaries under Deeds of Trust against lots shall be sent by certified mail, return receipt requested, to their respective addresses designated by them in writing to the Secretary of the Association. All notices, if received, as proven by the return receipt, shall be deemed to have been given when mailed, except notices of change of address which shall be deemed to have been given when received.

SECTION 2. - WAIVER OF NOTICE: Whenever any notice which is required to be given to any member, Director or officer of the Association by the provisions of the North Carolina Nonprofit Corporation Act, the provisions of the Article of Incorporation or these By-Laws, is waived in writing, signed by the person or entities entitled to such notice, whether before or after the time stated therein, such signing and waiver shall be equivalent to the giving of such notice.

SECTION 3. - INVALIDITY: The invalidation of any provision of these By-Laws by any court, agency, or legislature shall in no way affect the validity of any other provision of these By-Laws, and the same shall remain in full force and effect.

SECTION 4. - CAPTIONS: The captions herein used are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope of these By-Laws, or the intent of any provision thereof.

SECTION 5. - GENDER: The use of the masculine gender in these By-Laws shall be deemed to include the feminine gender and the neuter gender and use of the singular shall be deemed to include the plural, whenever the context so requires.

SECTION 6. - WAIVER: No restriction, condition, obligation or provision contained in these By-Laws shall be deemed to have

bee abrogated or waived by reason of any failure to enforce the same, irrespective of the number of violations or breaches thereof which may occur.

SECTION 7. - FISCAL YEAR: The fiscal year of the Association shall be the calendar year.

SECTION 8. - SEAL: The seal of the Association shall be in such form as shall be approved from time to time by the Board of Directors of the Association.

IN WITNESS WHEREOF, the President of the Association and the Secretary thereof do hereby certify that this is a true copy of the duly enacted By-Laws of HEWLETT'S RUN HOMEOWNERS ASSOCIATION, INC. this _____ day of _____, 1997.

HEWLETT'S RUN HOMEOWNERS ASSOCIATION, INC.

By: _____
MARK L. MAYNARD, PRESIDENT

(CORPORATE SEAL)

ATTEST:

Assistant Secretary

STATE OF NORTH CAROLINA

COUNTY OF NEW HANOVER

I, _____, a Notary Public in and for the State and County aforesaid, do hereby certify that _____ personally appeared before me this day and acknowledged that he/she is the Assistant Secretary of HEWLETT'S RUN HOMEOWNERS ASSOCIATION INC., a North Carolina Non-profit Corporation, and that by authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by its President, sealed with its corporate seal, and attested by _____self as its Secretary.

Witness my hand and notarial stamp or seal, this the _____ day of _____, 19____.

Notary Public

My commission expires:

LEGAL CERTIFICATION FOR

HEWLETT'S RUN

PLANNED UNIT DEVELOPMENT

I am an attorney licensed to practice in the State of North Carolina. I am not an employee, principal or officer of the Declarant. I hereby certify that the legal documents for the above Planned Unit Development are in compliance with all of the following HUD legal requirements.

I. Articles of Incorporation

1. Every person or entity who is a record owner of any lot is entitled to membership and voting rights in the association. Membership is appurtenant to, and inseparable from, ownership of the lot.
2. If the association is dissolved, the assets shall be dedicated to a public body, or conveyed to a nonprofit organization with similar purposes.
3. Amendment of the Articles of Incorporation requires the approval of at least 2/3 vote of the lot owners.
4. Annexation of additional properties, mergers and consolidations, mortgaging of Common Area, dissolution and amendment of the Articles, requires prior approval of HUD/VA as long as there is a Class B membership.

II. Declaration of Covenants.

1. A legal description of the Planned Unit Development is contained.
2. All lots in the Planned Unit Development are subject to the covenants.
3. Every owner has a right and easement of enjoyment to the common area, which is appurtenant to the title to the lot.
4. The lien of any assessment is subordinate to the lien of the deed of trust to any institutional lender.
5. Mortgagees are not required to collect assessments.
6. Annexation of additional properties, dedication of Common Area, and amendment of the Declaration of Cove-

nants, Conditions and Restrictions, requires HUD/VA prior approval as long as there is a Class B membership.

7. Failure to pay assessment does not constitute a default under an insured mortgage.
8. The covenants assure lot owners of automatic membership and voting rights in the association.
9. Each lot owner is empowered to enforce the covenants.
10. The approval of at least 2/3 of the lot owners is required to amend the covenants.
11. The common area cannot be mortgaged or conveyed without the consent of at least 2/3 of the lot owners (excluding the developer).
12. If ingress or egress to any residence is through the common area, any conveyance or encumbrance of such area is subject to lot owner's easement.
13. There is no provision in the covenants which conflicts with the HUD requirement that the common area shall be conveyed to the association free and clear of all encumbrances before HUD insures the first mortgage in the Planned Unit Development.
14. Absolute liability is not imposed on lot owners for damage to common area or lots in the Planned Unit Development.
15. The Class B membership (Declarant's weighted vote) ceases and converts to Class A membership upon the earlier of the following:
 - A. 75% of the units are deeded to homeowners.
 - B. On December 31, 2000.

III. By-Laws

1. The By-Laws are consistent with the Articles of Incorporation and Declaration of Covenants.
2. HUD/VA has the right to veto amendments while there is a Class B membership.

W. TALMAGE JONES, Attorney