

**BY-LAWS
OF
HIGHLANDS FALLS COMMUNITY
ASSOCIATION, INC.**

ARTICLE I - Name

The name of this North Carolina non-profit corporation is HIGHLANDS FALLS COMMUNITY ASSOCIATION, INC. (the "Association").

ARTICLE II - Definitions

The definitions contained in the Declarations (as defined hereinbelow) are incorporated by reference as if fully set out herein, and the words and terms used herein shall have the meanings set forth in the definitions contained in the Declarations. In addition, the following words and terms shall have the following meanings and to the extent the following definitions specifically contradict the definitions contained in the Declarations, the following definitions shall control; otherwise, the definitions contained hereinbelow shall be deemed to supplement and explain the definitions contained in the Declarations:

"Amendment" - the Amendment to the Amended Declaration of Protective Covenants and Restrictions Providing for Highlands Falls Community Association, Inc., dated July 18, 1994, recorded in Book O-20 at Pages 1941-1961, Macon County Public Registry, and in Book 868 at Page 592, Jackson County Public Registry.

"Association" - Highlands Falls Community Association, Inc., a Non-Profit Corporation organized under the laws of the State of North Carolina, and its successors and/or assigns as the property owners' association for Highlands Falls.

"By-Laws and Former By-Laws" - By-Laws shall mean these By-Laws. Former By-Laws shall mean the original By-Laws of the Association as amended prior to the adoption of these By-Laws.

"Common Property" and *"Common Properties"* - Common Properties shall include the definition of Common Properties contained in the Declarations. In addition, the Common Properties shall include all property, real, personal or intangible, heretofore conveyed to and/or now owned by the Association and hereafter acquired by the Association, whether or not the conveyance designates the property conveyed as common property, provided the same is conveyed to and acquired by the Association for the common use and benefit of the Members of the Association. Common Property is a specific parcel or item of the Common Properties.

"Declarations" - The Amended Declaration of Protective Covenants and Restrictions Providing for Highlands Falls Community Association, Inc. dated August 19, 1980, recorded in Book H-13 at Page 15, Macon County Public Registry, and the Amended Declaration of Protective Covenants and Restrictions providing for Highlands Falls Community Association, Inc. dated February 2, 1982, recorded in Book K-114 at Page 204, Macon County Public Registry, and in Book 600 at Page 68, Jackson County Public Registry, as extended and amended by the supplemental declarations recorded in Book P-15 at Page 223, Macon County Public Registry; Book P-16 at Page 21, Macon County Public Registry; Book V-17 at Page 224, Macon County Public Registry and Book 691 at Page 343, Jackson County Public Registry; Book K-18 at Page 528, Macon County Public Registry and Book 734 at Page 485, Jackson County Public Registry; Book V-18 at Pages 1077-1082, Macon County Public Registry and Book 763 at Page 489, Jackson County Public Registry; and Book L-19 at Pages 1379-1383, Macon County Public Registry.

"Developer" - Golf Properties and Associates, a North Carolina partnership (now terminated); its predecessor and successor, Golf Properties, Inc., a North Carolina corporation; and the successors and assigns of Golf Properties, Inc. as developer of Highlands Falls.

“Highlands Falls” - Highlands Falls Country Club Subdivision, which includes all of the real property described in paragraph Four of the Amendment and all real property contiguous thereto owned by Golf Properties, Inc. and Highlands Falls Country Club, Inc.

“Lot” or *“Residential Lot”* - Any subdivided parcel of land, whether or not improved, that has been platted and recorded by the Developer, located within Highlands Falls and designated for single-family residential use.

“Member” and *“Associate Member”* - Member and Associate Member are defined in ARTICLE VII hereinbelow.

“Neighborhood Area” - Neighborhood Area shall include the definition of Neighborhood Area contained in the Declarations, and shall include without limitation the subdivision known as Club Villas (the “Club Villas”); the planned unit development known as Golf Villa Neighborhood #1, also known as Golf Villa #1 Neighborhood (the “Golf Villas”); the subdivision known as Winterberry Court (“Winterberry Court”); the planned unit development known as Laurelwood Subdivision (“Laurelwood”); and the condominium known as Chestnut Cove, a Condominium (“Chestnut Cove”), all of which are located within Highlands Falls and are more particularly described in paragraph Four of the Amendment.

“Owner” - Owner is defined in ARTICLE VII hereinbelow.

“Properties” - Properties shall include the definition of Properties contained in the Declarations. In addition, Properties shall have the same meaning as Highlands Falls.

“Residential Unit” - Residential Unit shall mean each dwelling unit located in each Neighborhood Area, including the Club Villas, the Golf Villas, Winterberry Court, Laurelwood, and Chestnut Cove, all of which are located within Highlands Falls and are more particularly described in paragraph Four of the Amendment.

“Subdivision” - Subdivision shall have the same meaning as Highlands Falls.

“Use Restrictions” - Use Restrictions mean the Declaration of Restrictive Covenants for Highlands Falls Country Club dated September 1, 1973, and the Supplemental Declaration attached thereto, recorded in Book V-9 at Page 100, Macon County Public Registry, providing use restrictions for Lots in Section I of Highlands Falls, and the Declaration of Rights, Restrictions, Affirmative Obligations and Conditions Applicable to Highlands Falls Country Club Community recorded in Book K-14 at Page 203, Macon County Public Registry, providing use restrictions for Lots in Section II of Highlands Falls.

ARTICLE III - Effective Date

These By-Laws replace the Former By-Laws of the Association. These By-Laws were adopted by resolution of the Members of the Association at the annual meeting of the Members duly held on July 18, 1994. Notice of said annual meeting was given to each Member on June 17, 1994, in the manner specified in the Declarations and in the Former By-Laws. On July 18, 1994, the date of the meeting, the Members were entitled to cast the total of 383 votes and there were 304 votes represented in the meeting in person or by proxy; therefore, in excess of 60% of the total number of votes entitled to be cast by the Members were represented at the meeting and a quorum was present. Of the 304 votes represented at the meeting, the affirmative vote of 228 were required in order to adopt these By-Laws. 304 votes were cast in favor of and 0 votes were cast in opposition to the adoption of these By-Laws. Simultaneously with the adoption of these By-Laws, the Amendment was adopted by the Members of the Association. The resolution so adopted provided that the Amendment be executed by the President of the Association, attested by the Secretary with the corporate seal affixed, and recorded in the Macon County Public Registry and in the Jackson County Public Registry as soon as possible after September 19, 1994; that the Amendment would become effective upon the date of the first such recordation; and that these By-Laws would become effective simultaneously with the Amendment becoming effective.

ARTICLE IV - Offices

Section 1. Principal Office: The principal office of the Association shall be located at such place as the Board of Directors may from time to time establish.

Section 2. Registered Office: The registered office of the Association, which is by law required to be within the State of North Carolina, shall be located at 9 West Main Street, Franklin, North Carolina, 28734, or at such other place within the State of North Carolina as may, from time to time, be fixed and determined by the Board of Directors.

Section 3. Other Offices: The Board may have other offices at such places as the Board of Directors may designate or as the affairs of the Association may require from time to time.

ARTICLE V - Purposes

The purposes for which the Association is organized are: To carry out the purposes set for the in ARTICLE III of the Articles of Incorporation of the Association, which are incorporated by reference.

To carry out the purposes of the Association as set forth in the Declarations, the Amendment and the Use Restrictions.

To promote and enhance the proprietary, civic, social, and recreational interests of the Owners within Highlands Falls, and any other property owners who for any reason become Members of the Association.

To discharge the Association's duties and enforce the Association's rights with respect to the Associate Members.

To acquire by gift, purchase, or otherwise, and to hold in the Association's name, real and personal property;

To construct, maintain, replace, repair, or otherwise deal with improvements of any kind whatsoever upon its real property or for which it has responsibility;

To provide road, water system, sewer system, security and other improvements and/or maintenance within the Subdivision and other areas with respect for which it has responsibility for the same;

To exercise all powers granted by law to non-profit corporations and to do all lawful things and acts for the benefit of its Members and the protection of their interests as real property owners; and

To levy assessments, fees, dues, fines and charges and to borrow money for the accomplishment of the foregoing purposes.

To comply with and compel compliance with the Declarations, the Amendment and the Use Restrictions, and to comply with and to compel compliance with the provisions of any other restrictive covenants affecting real property requiring membership in the Association by affected Owners, and assigning to the Association rights as against said Owners and/or responsibilities for the enforcement of provisions of such restrictive covenants.

The foregoing clauses shall be construed as both objectives and powers. The foregoing enumeration of specific powers shall not be deemed to limit or restrict in any manner the general powers of the Association and the enjoyment and exercise thereof as conferred by the laws of the State of North Carolina, now or hereafter in effect.

Notwithstanding anything herein to the contrary, the Association shall exercise only such powers as are in furtherance of the exempt purposes of organizations set forth in Section 501(c) (7) of the Internal Revenue Code and its regulations as the same now exists, or as it may hereafter be amended from time to

time.

ARTICLE VI - Limitations

The Association shall have no power to declare dividends, and no part of its net earnings shall inure to the benefit of any Member or director of the Association or to any other private individual. The Association shall have no power or authority to engage in activities which consist of carrying on propaganda or otherwise attempting to influence legislation or to participate in or intervene in any political campaign on behalf of any candidate for public office.

ARTICLE VII - Membership

Section 1. Members: All Owners of real property within Highlands Falls which is subject to and encumbered by the Declarations are Members of the Association. Highlands Falls Country Club, Inc. is also a Member of the Association. Members shall be entitled to vote at all meetings of the Members in the manner set forth hereinbelow and to serve as directors and officers of the Association.

The Owner of Owners of each Lot and Residential Unit within the Subdivision shall designate a "Voting Member" with respect to each Lot or Residential Unit in the manner and for the purposes set forth hereinbelow. Such Voting Member must be a natural person who is an Owner or who is an officer, director, trustee or otherwise a principal in an Owner of the Lot or Residential Unit.

"Owner" shall include the definition contained in the Declarations. In addition, Owner shall mean:

Any person, firm, corporation or other legal or commercial entity or combination thereof who or which holds fee simple title to any Lot or Residential Unit; and

Any person, firm, corporation or other legal or commercial entity or combination thereof who or which as contracted to purchase fee simple title to any Lot or Residential Unit pursuant to a written agreement, and which written agreement entitles such person, firm, corporation or other legal or commercial entity or combination thereof to the exclusive right to possess and control such Lot or Residential Unit shall, for the purposes of the Declarations and the Amendment, cease to be the Owner of such Lot or Residential Unit for so long as said agreement is legally effective.

Section 2. Associate membership: Any person, firm, corporation or other legal or commercial entity or combination thereof who or which owns real property outside Highlands Falls and who or which has the right to use the Association's central water system or central sewer system in accordance with any deed, instrument or contract with the Association shall be an Associate Member of the Association. Associate Members shall pay all assessments and fees charged by the Association attributable to their water and/or sewer use and shall pay membership fees. Associate Members shall have the right to receive notice of and to attend all meetings of the Members of the Association, but they shall not have the right to vote at meetings of the Members or to serve as directors or officers of the Association.

Section 3. Transferability, etc.: At such time as any Owner of any Lot or Residential Unit ceases to own the Lot or Residential Unit, the membership in the Association of such Owner shall immediately and automatically transfer to the successors in title to such Owner; and a transfer in ownership of any Lot or Residential Unit shall also transfer membership in the Association appurtenant to such ownership. No Owner may resign from or otherwise avoid membership in the Association.

Section 4. Indicia of membership: The Association shall issue no shares of stock, certificates, or other indicia of membership, an ownership interest in a Lot or Residential Unit with respect to which membership in the Association is required being sufficient for that purpose, or in the case of Associate Members, a relationship to the Association by legal instrument establishing Associate Membership being sufficient for that purpose.

ARTICLE VIII - Duties, Responsibilities, Powers and Functions of the Association

Section 1. General duties, responsibilities, powers and functions: The Association shall have the duties, responsibilities, powers and functions set forth in the Declarations, the Amendment, the Use Restrictions, and in ARTICLE V - Purposes set forth hereinabove.

Section 2. Specific duties, responsibilities, powers and functions: The Association shall have the following specific duties, responsibilities, powers and functions concerning the Subdivision roads, water system, sewer system, security system and other Common Properties:

Subdivision road maintenance, repair and improvement. The Association owns fee simple title to or easements upon the road system of Highlands Falls. The Association does not own fee simple title to the internal road systems of the Club Villas, the Golf Villas, Winterberry Court, Laurelwood, or Chestnut Cove, although the Association owns easements upon some or all of the roads included in said internal road systems. The Association shall have the responsibility to maintain, repair, landscape, and to always keep in as good a condition as the same is now in the road system of Highlands Falls, not including any of said internal Neighborhood Area road systems. With respect to any and all roads so maintained by the Association, the Association shall have the authority to make improvements thereto. The Association may, in its discretion, decide to improve all of the roads, some of the roads, or none of the roads. The Association may, in its discretion, establish the degree to which to improve any road and may establish timetables and priorities for improvements and it shall generally have discretion in the improvement of roads.

Subdivision water system and sewer system maintenance, repair and improvement. The Association owns the water system of Highlands Falls and the sewer system of Highlands Falls and all facilities connected therewith. The Association does not own the internal water lines and sewer lines and related facilities of the Club Villas, the Golf Villas, Winterberry Court, Laurelwood, or Chestnut Cove, although the Association owns easements in connection with some or all of said internal water and sewer lines and facilities and provides water to and sewer collection from each Neighborhood Area. The Association shall have the responsibility to maintain, repair and to always keep in as good a condition as the same are now in the water system and the sewer system of Highlands Falls. The Association shall have the authority to make improvements to the water system and sewer system of Highlands Falls and shall specifically have the responsibility to improve the same and increase the capacity of the same as required by the increasing population of the Subdivision and by applicable laws and regulations. The Association shall have the responsibility to always assure that the water system and the sewer system of Highlands Falls are in strict compliance with all applicable laws and regulations. Subject to the foregoing, the Association may, in its discretion, establish the degree to which to improve the water system or any portion thereof and the sewer system or any portion thereof, and it may establish timetables and priorities for such improvements and it shall generally have discretion in the improvement of the water system and the sewer system. The Association shall not provide water or wastewater system use to any additional individual or entity beyond the Highlands Falls Community except for those properties which were served prior to January 1999.

Subdivision utility line maintenance, repair and improvement. The Association owns the common water lines and sewer lines, and the conduits for the electrical lines, telephone lines, cable television lines, and other utility lines within the Subdivision, subject to ownership rights of utility companies, not including the portions thereof with the Club Villas, the Golf Villas, Winterberry Court, Laurelwood, and Chestnut Cove, although the Association owns easements in some or all of said lines and conduits in said Neighborhood Areas. The Association shall have the responsibility to maintain and repair the Subdivision utility lines and conduits it owns, and to always keep them in as good a condition as they are now in. With respect to the utility lines and conduits within the Club Villas, the Golf Villas, Winterberry Court, Laurelwood, and Chestnut Cove, the Association shall have the responsibility to maintain and repair the sewer lines to the outside of the buildings in which the Residential Units are located, and to maintain and repair the water lines and other utility conduits to the curb stops near said buildings. The Association shall have the authority to make improvements to the utility lines and conduits of Highlands Falls and shall specifically have the responsibility to improve same and increase the capacity of the same as required by the increasing population of the Subdivision and by applicable laws and regulations. The Association shall have the responsibility to always assure that the utility lines and conduits of Highlands Falls are in strict

compliance with all applicable laws and regulations. Subject to the foregoing, the Association may, in its discretion, establish the degree to which to improve the utility lines and conduits, and it may establish timetables and priorities for such improvements and it shall generally have reasonable discretion in the improvement of the utility lines and facilities.

Subdivision security system maintenance, repair and improvement. The Association owns the gatehouse area of Highlands Falls. The Association shall have the responsibility to maintain and repair the gatehouse area and to always keep the same in as good a condition as the same is now in, and to staff and operate the same in a reasonable manner. The Association shall have the authority to make improvements, changes and operating modifications with respect to the gatehouse and related facilities and the staffing thereof. The Association shall be authorized but shall not be required or have the responsibility to take more extensive measures in the future with regard to the security, safety and protection of persons and property within the Subdivision, such measures to include without limitation the provision of security guards, police protection, electronic surveillance, security devices, and the provision of electronic, mechanical, vehicular and technological support therefor.

Maintenance, repair and improvement of Common Properties. With respect to all other Common Properties owned by the Association from time to time, the Association shall have the responsibility to maintain and repair same, to keep the same in good condition, and the Association shall have authority and discretion to make improvements thereto.

Section 3. Acceptance of assignments and maintenance responsibilities: The Association shall be required to accept from the Developer assignments concerning the obligation to maintain the Subdivision roads, water system, sewer system, security system and other Common Properties; provided, the Association shall not be required to accept any such assignments unless (a) the roads, systems or Common Properties sought to be assigned are in a completed and ready to use condition and have been paid for at the time such assignment is made; and (b) adequate provision has been made for the Association to be fully compensated for its maintenance of said roads, systems and Common Properties, the maintenance obligation of which is to be assigned to the Association.

Section 4. Compliance with Declarations: The Association shall have the responsibility to comply in all manners with the provisions of the Declarations, the Amendment, and the Use Restrictions, and to compel compliance therewith by the Members, Associate Members, Owners and by the occupants of all Lots and Residential Units within the Subdivision, and to take all steps necessary to discharge its obligation to compel compliance. The Association's said duty to compel compliance with the provisions of the Declarations, Amendment, and Use Restrictions shall not be deemed in any way to limit the ability otherwise held by any other person or entity to compel compliance with such provisions.

Section 5. Contracts with Neighborhood Areas: The Association shall have the power to enter into contracts with associations governing the Neighborhood Areas (or if there is no association governing a Neighborhood Area, with the Owners within the Neighborhood Area), including the Club Villas, the Golf Villas, Winterberry Court, Laurelwood, and Chestnut Cove, wherein the Association would be responsible for repair and maintenance of any one or more or all of the internal common properties or common elements of said Neighborhood Areas, including without limitation road systems, water systems, and sewer systems, provided such contracts provide for full payment to the Association for its costs and expenses in providing such repair and maintenance services, including without limitation the costs of labor, materials, overhead and insurance.

Section 6. No limitation: The preceding enumeration of duties, responsibilities, powers and functions of the Association is not intended to be exclusive and is not intended to limit in any way any actions the Association might undertake not prohibited by law or otherwise.

ARTICLE IX - Assessments Against Lots and Residential Units

Section 1. Duty to pay regular annual assessments: It shall be the responsibility of each Owner

and each Lot and Residential Unit to pay regular annual assessments to the Association. On or before January 31 of each year or such other date as the Association may establish, the Association shall cause to be given to one or more Owners of each Lot or Residential Unit notice of the amount of assessments to be due for that year and the due date of the assessments, which shall be no less than 60 days from the date of the notice. The assessments so made shall be delinquent if not paid on or before the due date so established. The notice shall be deemed to have been given to each Owner of any particular Lot or Residential Unit if given to one of the Owners of the Lot or Residential Unit. Such notice shall be deemed to have been properly given to an Owner and complete if it is hand delivered to such Owner personally or if it is deposited post-paid in a Post Office of official depository under the exclusive care and custody of the U.S. Postal Service addressed to such Owner at the latest address shown in the records of the Association, or if none be shown to the address of such Owner on record with the taxing authorities of Macon County or Jackson County. It shall be the responsibility of each Owner to keep the Association furnished with his current address. If the Association should fail to timely give notice or if notice is not actually received by any Owner of any Lot or Residential Unit, such fact shall not diminish or impair the requirement of the Owner to pay the assessments, and it shall be the affirmative responsibility of each Owner of each Lot and Residential Unit to pay the assessments on or before the due date each year, whether or not notice is properly or timely given or received.

Section 2. Categories of assessments: The regular annual assessments against the Lots and Residential Units shall be separated into such categories and sub-categories as may seem appropriate to the Association and the notice of assessment shall reflect the amount due in each category. The categories shall include the following, but other categories and sub-categories may be established: (a) road maintenance and landscaping fees; (b) security/gatehouse fees; (c) water usage fees for developed Lots and Residential Units; (d) water availability fees for undeveloped Lots; (e) sewer usage fees for developed Lots and Residential Units; (f) sewer availability fees for undeveloped Lots; and (g) membership fees. Other categories and sub-categories which the Association is specifically authorized to establish include without limitation: (a) water system development fees; (b) working capital fees; (c) one-time construction fees; (d) water system impact or tap fees; and (e) sewer system impact or tap fees. Regular annual assessments against Associate Members shall be in the same amounts as the assessments against Lots and Residential Units in the category(ies) of services provided to each Associate Member, and Associate Members may also be assessed membership fees.

Section 3. Reserve Funds: The Association shall establish reasonable reserve funds from its regular annual assessments for the purpose of financing improvement programs; for major rehabilitation and major repairs; for emergency and other repairs required as a result of storm, fire, flood, wind, natural disaster, or other casualty; and for initial costs of any new service to be performed by the Association.

Section 4. Amount of assessments: The amount of the regular annual assessments against each Lot or Residential Unit shall be computed on a calendar year basis in the following manner:

- A. Road maintenance and landscaping fees.** Each Lot or Residential Unit shall be assessed an amount which when added to the amounts assessed against all other Lots, both developed and undeveloped, and all other Residential Units shall be sufficient to (1) pay the outstanding road maintenance, improvement and landscaping obligations; (2) create a fund of adequate size to pay all costs and expenses for road maintenance, improvement and landscaping expected to be incurred during the year to which the assessment is attributable; and (3) maintain a reasonable reserve for the purposes set forth in Section 3 hereinabove.
- B. Water usage fees and water availability fees.** Each Lot or Residential Unit shall be assessed an amount which when added to the amounts assessed against all other Lots, both developed and undeveloped, and all other Residential Units shall be sufficient to (1) pay the outstanding water system maintenance and improvement obligations; (2) create a fund of adequate size to pay all costs and expenses for water system maintenance and improvement expected to be incurred during the year to which the assessment is attributable; and (3) maintain a reasonable reserve for the purposes set forth in Section 3 hereinabove.
- C. Sewer system fees.** Each Lot or Residential Unit to which the sewer system is available shall be assessed an amount which when added to the amounts assessed against all other Lots, both developed

and undeveloped, and all other Residential Units shall be sufficient to (1) pay the outstanding sewer system maintenance and improvement obligations; (2) create a fund of adequate size to pay all costs and expenses for sewer system maintenance and improvement expected to be incurred during the year to which the assessment is attributable; and (3) maintain a reasonable reserve for the purposes set forth in Section 3 hereinabove.

- D. Security/gatehouse fees.** Each Lot or Residential Unit shall be assessed an amount which when added to the amounts assessed against all other Lots, both developed and undeveloped, and all other Residential Units shall be sufficient to (1) pay the outstanding obligations associated with the gatehouse, related facilities and staffing thereof, and other security, safety and protection programs implemented by the Association; (2) create a fund of adequate size to pay all costs and expenses for said gatehouse and security operations expected to be incurred during the year to which the assessment is attributable; and (3) maintain a reasonable
- E. Membership fees.** Each Lot or Residential Unit shall be assessed an amount which when added to the amounts assessed against all other Lots, both developed and undeveloped, and all other Residential Units shall be sufficient to (1) pay the outstanding obligations of the Association for which payment from any other funds belonging to the Association would be inappropriate; (2) create a fund of adequate size to pay for such obligations expected to be incurred during the year to which the assessment is attributable; and (3) to pay the costs and expenses of the administration of the Association and of carrying out the duties and obligations of the Association as set forth in these By-Laws, the Declarations, the Amendment, the Use Restrictions, and in the Association's resolutions, rules and regulations, expected to be incurred during the year to which the assessment is attributable.
- F. Other assessments and fees.** In the event the Association establishes other categories and sub-categories of assessments, each Lot or Residential Unit shall be assessed an amount in each category or sub-category which when added to the amounts assessed against all other Lots, both developed and undeveloped, and all other Residential Units shall be sufficient to (1) pay the outstanding obligations in such category or sub-category; (2) create a fund of adequate size to pay all costs and expenses expected to be incurred in such category or sub-category during the year to which the assessment is attributable; and (3) maintain a reasonable reserve for the purposes set forth in Section 3 hereinabove. Assessments attributable to expenses of the Association for specific acts or needs of individual Owners, such as, by way of example but not limitation, one time construction fees, water system impact or tap fees and sewer system impact or tap fees, shall be in such amount as may be reasonably calculated by the Association.
- G. Improved Lots and Residential Units/Unimproved Lots.** Assessments in each category may be different in amount for developed Lots and Residential Units as opposed to undeveloped Lots, but the assessments in each category against all improved Lots and Residential Units must be equal in amount and the assessments against all unimproved Lots must be equal in amount.
- H. Multiple Lots.** For the purposes of this Section 4, subsections A, B, C, D, E and F hereinabove, in the event two or more Lots are improved as a single unit, the Association may, in its discretion, elect to treat one or more of such improved Lots as improved Lots and one or more of such Lots as unimproved Lots or all of such Lots as one improved Lot.

Section 5 Accounting methods: The Association shall apply proper accounting methods so as to distinguish between the various different categories and sub-categories of assessments, and assessments collected in one category or sub-category shall not be used or spent for purposes of other categories or sub-categories; provided, upon use of generally accepted accounting methods, and upon authorization of the Board of Directors, funds transfers may be made between categories and sub-categories. This provision, so long as it is otherwise complied with, shall not prohibit the Association from depositing the assessments collected from all categories and sub-categories into one account.

Section 6. Special assessments: In addition to the foregoing regular annual assessments, the Association is empowered to make special assessments against the Owners of Lots and Residential Units for the purpose of financing improvement programs; for major rehabilitation or major repairs; for emergency and other repairs required as a result of storm, fire, flood, wind, natural disaster, or other casualty loss; and for initial costs of any new service to be performed by the Association. Special assessments against Associate Members shall be in the same amounts as the assessments against Lots and Residential Units in the category(ies) of services provided to each Associate Member. The Board of

Directors shall be empowered to make special assessments of no more than \$200.00 each no more than once each calendar year; special assessments of an amount greater than \$200.00 or of a frequency of more than once each calendar year must be approved by the Members at a meeting of the Members.

Section 7. Fines because of violation: The Association shall have the power to assess fines against Owners of Lots and Residential Units and Associate Members for the violation of the provisions of these By-Laws, the Declarations, the Amendment, the Use Restrictions, and the resolutions, rules and regulations of the Association, including violations because of non-payment of assessments, fees and charges. No fine shall exceed the amount of \$500.00. Such authority to fine shall not be an exclusive remedy and may be exercised in addition to or in the alternative to any other remedy whatsoever available at law, in equity or otherwise. Each violation, no matter how numerous or repeated the violations may be, may be assessed the maximum fine. The Board of Directors shall sit as an adjudicatory panel and shall accord the party charged with the violation notice of the charge, opportunity to be heard and to present evidence, and notice of the decision. Notice of the Board's decision if a fine is imposed shall constitute an assessment against the Owner of the Lot or Residential Unit or Associate Member which shall be in addition to all other assessments imposed and which assessment shall be due immediately upon the rendering of the Board's decision.

Section 8. Effect of non-payment of assessments; the personal obligation of the Owner; lien; remedies of the Association: If any assessment is not paid by the due date, such assessment shall be delinquent and shall bear interest from the due date at the rate of eighteen (18%) percent per annum (or the maximum interest rate allowed by law if the same is lower than 18% per annum). Any assessment remaining unpaid after the due date shall constitute a lien on the Owners' Lot or Residential Unit or the Associate Member's real property when filed of record in the Office of the Clerk of Superior Court for Macon County or Jackson County, North Carolina, in the manner provided therefor under Chapter 44A of the General Statutes, except that there shall be no time limitation within which a lien must be filed. The Association's lien may be foreclosed in like manner as a mortgage or deed of trust on real estate under power of sale under Chapter 45 of the General Statutes. The Association may appoint a trustee analogous to a trustee in a deed of trust to conduct the foreclosure. If any delinquent assessment is placed in the hands of an attorney for collection, there shall be added to the amount due all costs of collection, including all reasonable attorney's fees not to exceed fifteen (15%) percent of the outstanding balance. The lien shall include the amount of all interest which accrues and continues to accrue upon the assessment and shall include the aforementioned costs of collection and attorney's fees. All assessments, interest, costs, and attorney's fees shall be and constitute the personal joint and several obligation of each Owner or Associate Member. The Association may, in addition or in the alternative to enforcing its lien, bring an action against the Owner or Associate Member to seek a money judgment for the amount of the assessments, interest, costs of collection and attorney's fees. The Association may purchase the Lot, Residential Unit or real property at any sale ordered pursuant to an action to foreclose the lien.

Section 9. Estoppel certificates: The Association shall promptly furnish upon request by any Owner or Associate Member, a certificate in writing signed by an officer or agent of the Association setting forth the status of the Owner's or Associate Member's payment of assessments. Such certificate shall constitute sufficient evidence against the Association to be relied upon by all parties except the Owner or Associate Member that the statements contained therein are true.

Section 10. Subordination to the lien of deeds of trust: The lien of the assessments set forth herein shall be subordinate to any deed of trust constituting a first lien upon any real property subject to such assessments; provided however, that such subordination shall be effective only with respect to assessments which become due and payable prior to sale following foreclosure of such deed of trust or the giving of a deed in lieu of foreclosure of such deed of trust, it being understood that such foreclosure sale or deed in lieu of foreclosure shall not relieve any Owner from liability for assessments accruing thereafter; provided further, that in the event of the foreclosure of any deed of trust to which assessments are subordinate, the proceeds of the foreclosure sale, if any there be after application to foreclosure costs and the indebtedness secured by such deed of trust, must be applied to such assessments.

Section 11. Control of financial affairs: The Board of Directors shall have control of all financial affairs of the Association, and it shall administer assessments, income, expenditures, and all financial

affairs whatsoever of the Association.

ARTICLE X - Meetings of Members

Section 1. Voting Rights: At each meeting of Members of the Association, one vote may be cast per Lot or Residential Unit, and the natural person(s) and/or legal entities who or which comprise the legal ownership of each Lot or Residential Unit shall designate one natural person as the "Voting Member" for that Lot or Residential Unit, and the natural person so designated shall be known as the "Voting Member" for that Lot or Residential Unit. It shall be the responsibility of each Member to keep the Secretary apprised of the identity of the Voting Member with respect to his or its Lots or Residential Units.

At any election, the designation of the Voting Member for any Lot or Residential Unit appearing on the Secretary's list mentioned hereinbelow shall be presumed correct. In the event of a question or dispute over the identity of the Voting Member for any Lot or Residential Unit, the final authority for determining the identity of the rightful Voting Member shall be with the Board of Directors, and the Board of Directors shall have the power to hold in abeyance the right of the Owners of such Lot or Residential Unit to vote or to be counted for quorum purposes until the dispute or question is resolved. If the Owner or Owners of any Lot or Residential Unit fail to designate in writing to the Secretary a Voting Member, then the Secretary shall be entitled to designate as Voting Member for such Lot or Residential any Owner otherwise qualified as provided in these By-Laws.

Section 2. Annual Meeting: An annual meeting of the Members shall be held each year at such place within Macon County, North Carolina, as the Board of Directors may designate. The annual meeting shall be held during the third week in July or as soon thereafter as possible on such date and at such time as the Board of Directors may designate. The purpose of the annual meeting shall be the election of directors for the succeeding year and for the transaction of such other business as may come before the meeting. If the election of directors is not held on the day designated for the annual meeting, or any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the members as soon thereafter as is convenient.

Section 3. Special Meetings: Special meetings of the Members may be called by the President, by any three members of the Board of Directors, or by petition signed by not less than fifteen (15%) percent of the Voting Members. Such meeting shall be held on a date and at a time and place in Macon County, North Carolina, determined by the Board of Directors. In no event shall the meeting be held earlier than thirty (30) days from the date of the call or later than sixty (60) days from the date of the call.

Section 4. Notice of Meeting: Written notice stating the place, day, and hour of any meeting of the Members shall be delivered to each Voting Member not less than thirty (30) days before the date of such meeting by or at the direction of the President, the Secretary, or the Members calling the meeting. In the case of a special meeting or when required by statute or these By-Laws, the purposes for which the meeting is called shall be stated in the notice. Delivery of such notice shall be complete if the person giving it either: (a) hand delivers it, or (b) deposits it in a post-paid wrapper bearing such address of the Member to whom delivery is being made as is on file with the Secretary in a Post Office or official depository under the exclusive care of the U. S. Postal Service.

Section 5. Informal Action by Members: Any action required by law to be taken at a meeting of the Members, or any action that may be taken at a meeting of the Members, may be taken without a meeting if a consent in writing, setting forth the action so taken or referring to documents containing a description of the action so taken, is signed by all of the Members entitled to vote with respect to the subject matter thereof.

Section 6. Quorum: Voting Members holding fifty (50%) percent of the votes that may be cast at any meeting of the Members shall constitute a quorum at such meeting. If a particular matter or purpose is stated in the notice of any special or annual meeting and a quorum is not present, and the same particular matter or purpose is to be considered at a second or subsequent meeting the notice of which states the particular matter or purpose, the Members present at such second or subsequent meeting shall, for the

purpose of such particular matter or purpose, constitute a quorum.

Section 7. Manner of Acting: Whenever the Association requires a decision of its Members upon any matter, such decision shall be expressed on behalf of the membership by the Voting Members of the Association. Except as otherwise expressly provided in these By-Laws, the act of a majority of the Voting Members entitled to vote at a meeting of Members at which a quorum is present shall be the act of the membership.

Section 8. Proxies: At any meeting of the Members, a Member entitled to vote may vote by proxy executed in writing by the Member or his duly authorized attorney in fact. The proxy shall be valid for such period of time as is specified therein, and if no period is specified shall be valid for one year from the date of its execution.

Section 9. Voting by Mail: When directors are to be elected by the Members, the Board of Directors shall have the power but not the obligation to allow voting by mail pursuant to such procedures as the Board of Directors may determine.

Section 10. Order of Business: The order of business at all annual meetings of Members shall be as follows:

- A. Roll call and establishment of a quorum.
- B. Proof of notice of meeting.
- C. Consideration of minutes of previous meeting.
- D. Reports of officers.
- E. Reports of committees.
- F. Appointment of inspectors of election.
- G. Election of directors.
- H. Unfinished business.
- I. New business.
- J. Adjournment.

The order of business of all special meetings shall be as determined by the Secretary of the Association.

Section 11. Parliamentary Conduct: Except as may be otherwise provided herein, the parliamentary conduct of all meetings of Members shall be governed by the latest edition of Robert's Rules of Order.

ARTICLE XI - Board of Directors

Section 1. Governance: The Association shall be governed by its Board of Directors, all of the members of which shall be natural persons. Directors need not be residents of the State of North Carolina. Each director must be an Owner or must be an officer, director, trustee or otherwise a principal in an Owner and must have a possessory interest in a Lot or Residential Unit.

Section 2. Number and Tenure: The number of directors shall be seven unless and until the number is changed by action of the Members, and the Members shall have the power to establish the number of directors from time to time. Members of the Board of Directors shall be elected at the annual meeting of the Members. "Candidates for the Board of Directors shall be nominated by a nominating committee to be appointed at least 60 days before the annual meeting of HFCA. The nominating committee shall consist of five (5) Members. Two (2) of those Members are to be nominated at the discretion of the current President of HFCA. Three (3) of the nominating committee Members are to be nominated by the Board of Directors of HFCA. At least one member of the nominating committee must be an outgoing member of the current Board of Directors. The nominating committee shall present to the Board of Directors a sufficient number

of qualified nominees at least 30 days before the annual meeting. The Board of Directors shall approve the nominees to be presented for election at the annual meeting of the Members. Thereafter, at each annual meeting of the Members, the directors whose terms are expiring shall be replaced with directors who shall serve three-year terms. No director who has served a full three-year term may be re-elected until the expiration of one-year following the end of the term. Directors elected or appointed to serve out the remainder of a directorship term shall be eligible for re-election at the expiration of the partial term.

Section 3. Regular meetings: A regular meeting of the Board of Directors shall be held without any other notice than this By-Law immediately after, and at the same place, as the annual meeting of Members. The Board of Directors may provide, by resolution, the time and place for holding additional regular meetings without other notice than such resolution. Additional regular meetings shall be held at the principal office of the Association in the absence of any designation in the resolution.

Section 4. Special Meetings: Special meetings of the Board of Directors may be called by or at the request of the President or any two directors, and shall be held at the principal office of the Association or at such other place as the Board may designate.

Section 5. Notice: Notice of any special meeting of the Board of Directors shall be given at least five (5) days in advance thereof by the President, Secretary, or directors calling the meeting by written notice or by verbal notice by telephone call directly to the director to whom notice is so given. It shall be the responsibility of each director to provide the Secretary with his or her current address. Delivery of written notice shall be complete if the person giving notice either: (a) hand delivers it, or (b) deposits it in a post-paid wrapper bearing such address of the director to whom delivery is being made as is on file with the Secretary in a Post Office or official depository under the exclusive care of the U.S. Postal Service. Any director may waive notice of any meeting, provided the waiver is in writing. Attendance at any meeting will also constitute a waiver of notice. The business to be transacted at a special meeting of the Board of Directors shall be specified in the notice of such meeting.

Section 6. Quorum: A majority of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board; but if less than a majority of the directors are present at any meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Section 7. Board Decisions: The act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by law or by these By-Laws.

Section 8. Informal action by Board of Directors: Any action required by law to be taken at a meeting of the Board of Directors or any action that may be taken at a meeting of the Board of Directors may be taken without a meeting if a consent in writing setting forth the action so taken or referring to documents containing a description of the action so taken is signed by all of the members of the Board of Directors.

Section 9. Telephone meeting: Any meeting of the Board of Directors may be held by telephone conference call, or with some of the directors personally present at the meeting and some of the directors present by telephone connection. When any meeting of the Board of Directors is held by conference call or with some of the directors attending by telephone connection, the requirements otherwise applicable to meetings of the Board of Directors shall apply.

Section 10. Budget: It shall be the responsibility of the Board of Directors to prepare an annual budget and to mail a copy of the same to each Member prior to the 30th day preceding the beginning of the fiscal year to which the budget applies.

Section 11. Audit: The Board of Directors shall employ a duly certified public accounting firm to audit the books and records of the Association on an annual basis at the end of each fiscal year. The Board

shall prescribe that the accounting firm's final report shall be presented to the Board of Directors within sixty (60) days after the end of each fiscal year, and it shall be the responsibility of the Board of Directors to mail a copy of the audit report to each Member prior to the next annual meeting of the Members.

Section 12. Committees:

- A. Committees of Directors:** The Board of Directors, by resolution adopted by majority of the directors in office, may designate one or more committees, each of which shall consist of two (2) or more directors, which committees, to the extent provided in such resolution, shall have and exercise the authority of the Board of Directors in the management of the Association; but the designation of such committees and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any individual director, of any responsibility imposed on him by law.
- B. Architectural Review Committee:** The Board of Directors shall appoint an Architectural Review Committee for the purpose of assuring the development of the Subdivision and the improvement of the Lots and Residential Units therein in accordance with the Declarations, the Amendment, and the Use Restrictions, and to control the type, nature and design of all buildings, structures and other improvements constructed on the Property. The number of members of the Architectural Review Committee shall be such as is established from time to time by the Board of Directors. Any number of the members of the Board of Directors may be appointed to serve on the Architectural Review Committee, but at least one member of the Architectural Review Committee must be a member of the Board of Directors. The Architectural Review Committee shall specifically comply with the provisions affecting it contained in the Amendment. The Architectural Review Committee shall be the same as and shall carry out the functions and duties of the Architectural Review Board and Environmental Control Committee as set forth in the Declarations and the Use Restrictions, and it shall perform all duties and have all rights of the Association with regard to review and approval of plans as specifically imposed upon and reserved to the Association in the Declarations and the Use Restrictions. Any Owner may appeal from any decision of the Architectural Review Committee by filing the same in writing with the Board of Directors of the Association within thirty (30) days of the rendering of the decision. Upon appeal to the Board of Directors, the Board shall sit as an adjudicatory panel and shall accord the appealing party and the Architectural Review Committee with the opportunity to be heard and present evidence and notice of the decision. The decision of the Board of Directors shall be final and binding upon the Owner and the Architectural Review Committee.
- C. Other Committees:** Other committees not having and exercising the authority of the Board of Directors in the management of the Association may be designated by resolution adopted by a majority of the directors present at a meeting at which a quorum is present. Except as otherwise provided in such resolution, members of each such committee shall be Members of the Association, and the President of the Association shall appoint the members thereof. Any member thereof may be removed by the person or persons authorized to appoint such member whenever in their judgment the best interests of the Association shall be served by such removal.

Section 13. Vacancies: Any vacancy occurring in the Board of Directors and any directorship to be filled by reason of an increase in the number of directors shall be filled by the Board of Directors. A director appointed to fill a vacancy shall serve for the unexpired term of his predecessor in office.

Section 14. Compensation: Directors as such shall not receive any stated salaries for their services, but by resolution of the Board of Directors expenses of attendance, if any, may be allowed for attendance at any regular or special meeting of the Board.

ARTICLE XII - Officers

Section 1. Officers: The officers of the Association shall be a President, a Vice-President, a Secretary, and a Treasurer, each of whom shall be a member of the Board of Directors. The Board of Directors may elect or appoint such other officers, including an Administrator, one or more Assistant Vice-Presidents, one or more Assistant Secretaries, and one or more Assistant Treasurers, as it shall deem desirable, such officers to have the authority and perform the duties prescribed, from time to time, by the Board of Directors, which officers may but are not required to be members of the Board of Directors.

Section 2. Election and Term of Office: The officers of the Association shall be elected annually by the Board of Directors at the regular annual meeting of the Board of Directors. If the election of officers is not held at such meeting, such election shall be held as soon thereafter as is convenient. New offices may be created and filled at any meeting of the Board of Directors. Each officer shall hold office until his successor has been duly elected and qualifies.

Section 3. Removal: Any officer elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Association would be served thereby.

Section 4. Vacancies: A vacancy in any office because of death, resignation, removal, disqualification, or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

Section 5. Powers and Duties: The several officers shall have such powers and shall perform such duties as may from time to time be specified in resolutions or other directives of the Board of Directors. In the absence of such specifications, each officer shall have the powers and authority and shall perform and discharge the duties of officers of the same title serving in non-profit corporations having the same or similar general purposes and objectives as this Association. The Secretary shall have the specific duty of at all times maintaining a list showing thereon with respect to each Lot and Residential Unit the Owners thereof, the Voting Member with reference thereto, and the addresses of such Owners and Voting Members. It shall be the responsibility of such Owners and Voting Members to keep the Secretary furnished with current addresses, and it shall not be the responsibility of the Secretary to inquire into the same. It shall be the responsibility of the Secretary to timely send, serve, and deliver all notices, statements, and similar information as required by law and by these By-Laws, the Declarations, the Amendment, and the Use Restrictions. The Administrator shall have the duty of carrying out the day to day functions and responsibilities of the Association, shall assist the other officers in the performance of their duties, and shall have such additional functions and responsibilities as shall be set forth in writing and approved by the Board of Directors. The Administrator shall be directly responsible to the Board of Directors and shall make himself available to attend all meetings of the Board of Directors when requested to do so.

ARTICLE XIII - General Provisions

Section 1. Indemnification: Except as specifically limited by the provisions of Chapter 55A of the North Carolina General Statutes, the Association shall indemnify each and every person who serves as a director or officer of the Association to the fullest extent permitted by law for: (a) reasonable expenses, including attorney's fees, actually and necessarily incurred by him in connection with any threatened, pending or completed action, lawsuit or proceeding, whether civil, criminal, administrative, or investigative, and whether or not brought by or on behalf of the Association, which seeks to hold such person liable or responsible in any way by reason of his actions or omissions in such capacity; and (b) payments required of such person in satisfaction of any monetary judgment, decree, fine or penalty entered against or imposed upon him in any such action, lawsuit or proceeding. The Board of Directors shall take all action as may be necessary and appropriate to authorize the Association to make payments required by this Section.

Section 2. Contracts: The Board of Directors may authorize any officer or officers, agent or agents of the Association, in addition to the officers so authorized by these By-Laws, to enter into any contract or execute and delivery any instrument in the name of and on behalf of the Association, and such authority may be general or may be confined to specific instances.

Section 3. Checks, Drafts, or Orders: All checks, drafts, or orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the Association, shall be signed by such officer or officers, agent or agents of the Association, and in such manner as shall from time to time be determined by resolution of the Board of Directors. In the absence of such determination by the Board of Directors, such instruments shall be signed by the Treasurer or an Assistant Treasurer and countersigned by

the President or a Vice-President of the Association.

Section 4. Deposits: All funds of the Association shall be deposited from time to time to the credit of the Association in such banks, trust companies, or other depositories as the Board of Directors may select.

Section 5. Gifts: The Board of Directors may accept on behalf of the Association any contribution, gift, bequest, or devise for any purpose of the Association.

Section 6. Books and Records: The Association shall keep correct and complete books and records of account and shall also keep minutes of the proceedings of its Members, Board of Directors, committees having and exercising any of the authority of the Board of Directors and the Architectural Review Committee, and it shall keep at the principal office a record giving the names and addresses of the Owners and Voting Members. All books and records of the Association may be inspected by any Member, or his or its agent or attorney for any proper purpose at any reasonable time. In the absence of any resolution by the Board of Directors to the contrary, the Secretary shall the responsibility of keeping the minutes of all meetings of the Members and Board of Directors, and of keeping the books and records of account of the Association, and the Secretary may delegate this responsibility to the Administrator upon reasonable supervision of the Administrator.

Section 7. Fiscal Year: The fiscal year of the Association shall begin on the first day of January in each year and end at midnight on the thirty-first day of December of each year.

Section 8. Seal: The Association's seal shall consist of two (2) concentric circles containing the name of the Association, the words "corporate seal," and a designation of the state of incorporation.

Section 9. Waiver of Notices: Whenever any notice is required to be given under the provisions of Chapter 55A of the General Statutes of North Carolina, or under the provisions of the Articles of Incorporation or the By-laws of the Association, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated herein, shall be deemed equivalent to the giving of such notice.

Section 10. Terminology: As used herein, words in the singular include the plural and the masculine includes the feminine and neuter genders as appropriate.

Section 11. Severability: Should any provision, paragraph, sub-paragraph, sentence, phrase or other portion of these By-Laws be determined to be void, invalid, illegal or unenforceable for any reason by any court or tribunal of competent jurisdiction, such determination shall not affect the remaining provisions hereof, which provisions are declared to be severable and shall remain in full force and effect. If any provision hereof shall be in conflict with any provisions of Chapter 55A of the North Carolina General Statutes, the provisions of the said Chapter 55A shall prevail with respect to such provision in conflict.

These By-Laws may be altered, amended, or repealed, and new By-Laws may be adopted by the Members at a duly constituted meeting of the Members at which a quorum is present. The notice of the meeting at which such action is taken must specify the action proposed to be taken.