

(e) Garages. Garage doors shall remain closed at all times except for temporary periods reasonably related to the active use of the garage, as determined in the Board's discretion.

(f) Exterior Lighting. Excessive exterior lighting on any Lot is prohibited. The Board in its sole discretion shall determine whether any exterior lighting is excessive.

(g) Storage of Goods. Storage (except in approved structures or containers) of furniture, fixtures, appliances, machinery, equipment, or other goods and chattels on the Common Area (except by the Association), or, if not in active use, any portion of a Lot which is visible from outside the Lot is prohibited.

(h) Prohibited Conditions. The following conditions, structures, or activities are prohibited on any Lot:

- (i) Dogs runs and animal pens of any kind, unless properly screened and approved in accordance with Article IV;
- (ii) Shacks or other structures of a temporary nature on any Lot except as may be authorized by Declarant during the initial construction of improvements within the Community. Temporary structures used during the construction or repair of a dwelling or other improvements shall be removed immediately after the completion of construction or repair;
- (iii) Permanent basketball goals, basketball standards, or backboards which are or would be visible from any street or Common Area; provided, portable basketball goals may be used on a Lot without prior approval, but must be stored so as not to be visible from any street or Common Area overnight or otherwise when not in use;
- (iv) Freestanding flagpoles; provided, flags may be displayed using a bracket or other approved device mounted to a dwelling so long as the size of the flag displayed does not exceed a standard size (as set forth in the Architectural Guidelines or determined in the Board's discretion and set forth in a Board rule); and

In any event, and notwithstanding the above list of prohibited conditions, as set forth in Article IV, any structure, improvement, or thing proposed for construction, erection, installation, or placement on a Lot requires prior Reviewer approval unless otherwise specifically exempt under the Architectural Guidelines.

(i) Quiet Enjoyment. Nothing shall be done or maintained on any part of a Lot which emits foul or obnoxious odors outside the Lot or creates noise or other conditions which tend to disturb the peace, quiet, safety, comfort, or serenity of the occupants and invitees of other Lots.

No noxious, illegal, or offensive activity shall be carried on upon any portion of the Community which, in the Board's reasonable determination, tends to cause embarrassment, discomfort, annoyance, or nuisance to others.

(j) Signs. No sign shall be erected within the Community, except those required by law, including posters, circulars, and billboards; provided, the following types of signs may be erected on a Lot without the Board's written consent: (i) residential identification signs for identification of the occupant and its address, in a style designated by the Architectural Guidelines or approved by the Reviewer; and (ii) security signs in a style and location designated by the Architectural Guidelines or approved by the Reviewer. This restriction shall not apply to entry, directional, and marketing signs installed by Declarant or a builder. The Association, with the Board's approval, shall have the right to erect signs on the Common Area.

(k) Holiday Decorations. Owners may display holiday decorations on their Lots if the decorations are of the kinds normally displayed in single family residential neighborhoods, are of reasonable size and scope, and do not disturb other Owners and residents by excessive light or sound emission or by causing an unreasonable amount of spectator traffic. Permitted decorations may be displayed for such periods as are normal and customary for comparable residential communities, as the Board determines.

(l) Antennas and Satellite Dishes. No antenna, satellite dish, or other device for the transmission or reception of television or radio (including amateur or ham radios) signals is permitted outside the dwelling on a Lot, except those devices whose installation and use is protected under federal law or regulations (generally, certain antennae and satellite dishes under one meter in diameter). In any event, no antenna, satellite dish or other device may be installed outside the dwelling or a Lot unless an application for the installation of such device is first submitted to the Reviewer for approval prior to being installed. Approval will be granted only if:

- (i) First, the antenna, satellite dish, or other device is designed for minimal visual intrusion (*i.e.*, is located in a manner that minimizes visibility from the street or an adjacent Lot) is properly screened, and is otherwise consistent with the Community-Wide Standard); and
- (ii) Second, the antenna, satellite dish, or other device complies with the color and appearance requirements set forth in the Architectural Guidelines within the confines of applicable federal regulations (*i.e.*, without precluding reception of a quality signal or unreasonably increasing the cost of the antenna, satellite dish or other device).

The Reviewer shall consider any such application on an expedited basis.

Notwithstanding the above, Declarant and/or the Association may erect an antenna, satellite dish, or other apparatus for a master antenna, cable, or other communication system for the benefit of all or a portion of Chatsworth, should any master system or systems be used by the Association and require such exterior apparatus.

(m) Trash Containers and Collection. No garbage or trash shall be placed or kept on any Lot, except in covered containers of a type, size and style specifically designated under the

Architectural Guidelines or approved by the Reviewer as required by the applicable governing jurisdiction. Such containers shall be screened from view outside of the Lot except when they are being made available for collection and then only for the shortest time reasonably necessary to effect such collection. Rubbish, trash, and garbage must be removed from the Lots and may not accumulate on any Lot. Outdoor incinerators may not be kept or maintained on any Lot.

(n) Pool Equipment. All pool equipment stored on any Lot shall be screened from view from outside the Lot. Above-ground pools are prohibited within the Community.

(o) Unightly or Unkempt Conditions. All portions of a Lot outside enclosed structures shall be kept in a clean and tidy condition at all times. No rubbish or debris of any kind shall be placed or permitted to accumulate upon or adjacent to any Lot in a manner which is unsanitary, unsightly, offensive, or detrimental to any other portion of the Community, as the Board may determine.

Woodpiles or other material shall be properly screened and stored in such a manner so as not to attract rodents, snakes, and other animals and or create a fire hazard, as the Board determines. No activities shall be conducted upon or adjacent to any Lot or within any structure on a Lot which are or might be unsafe or hazardous to any Person or property. Open fires are prohibited within the Community, except in a contained outdoor fireplace or barbecue unit while attended and in use for cooking purposes.

(p) Vehicles and Parking. As used in this Section, the term “vehicles” includes, without limitation, automobiles, trucks, boats, trailers, motorcycles, campers, vans, and recreational vehicles.

No vehicle may be parked or left upon any portion of a Lot except in a garage or carport, on a driveway, or on other portions of the Lot (if any) the Board designates as being an acceptable parking area. The following vehicles may be parked only in an enclosed garage or in a carport: recreational vehicles, mobile homes, trailers, campers, stored vehicles, commercial vehicles (including all vehicles with commercial lettering or logos), and unlicensed or inoperable vehicles. “Sports utility vehicles” and “mini-vans” (as such vehicles are commonly referred to, as determined in the Board’s discretion) and pick-up trucks without raised enclosures or commercial writing or logos shall be treated as automobiles and may be parking outside of carports or enclosed garages. Boats may be kept or stored outside of an enclosed garage or a carport only if property screened from view from outside of the Lot in a manner the Reviewer requires. This Section shall not apply to emergency vehicle repairs or to construction, service, and delivery vehicles for periods necessary to perform the services or make a delivery.

Notwithstanding the above, for purposes of cleaning, loading, unloading, and short-term and visitor parking, any vehicle may be parked outside of an enclosed garage or a carport temporarily and irregularly (in any event, not to exceed four (4) consecutive hours at any one time), to accommodate such use. The Board, in its discretion, may enact rules governing such temporary, irregular use or, in the absence of specific rules, shall have discretion in determining what constitutes permissible use.

(q) Wetlands, Lakes, and Other Water Bodies. Wetlands, lakes, ponds, and streams within the Community, if any, are part of the Community's Water Management System, and no active use of lakes, ponds, streams, or other bodies of water within the Community is permitted. The Association shall not be responsible for any loss, damage, or injury to any person or property arising out of the authorized or unauthorized use of lakes, ponds, streams, or other bodies of water within or adjacent to the Community.

(r) Laundry. No drying or airing of any clothing or bedding shall be permitted outdoors on any Lot and no clothes hanging devices such as lines, reels, poles, frames, etc. shall be stored or kept outdoors on any Lot.

(s) Trash and Vegetation. No trash, rubbish, garbage or other waste material shall be kept or permitted upon any Lot or the Common Area, except in sanitary containers located in a garage or, if there is no garage, in an appropriate area screened and concealed from view (except for the periods immediately preceding and subsequent to pick up by the applicable disposal service). No weeds, vegetation, rubbish, debris, garbage, waste materials or materials of any kind whatsoever shall be placed or permitted to accumulate on any Lot or any portion of the Property which would render it unsanitary, unsightly, offensive, or detrimental to any property in the vicinity thereof or to the occupants of any property in such vicinity, except as is temporary and incidental to the bona fide improvement of any portion of the Property. Job site debris shall be removed from all Lots at least weekly. Grass, hedges, shrubs, vines and mass planting of any type on any Lot or any portion of the Property shall be watered at regular intervals. Trees, shrubs, vines and plants which die shall be promptly removed. No leaves, trash, garbage or other similar debris shall be burned except as permitted by the appropriate governmental authority.

(t) Outbuildings, Gazebo, Trampolines, Awnings and Above-Ground Pools. Except as may be permitted by the Master ARC, no Owner shall construct, install, erect or maintain upon any Lot any outbuilding, storage shed, gazebo, trampoline or awning. In no event shall any outbuilding, storage shed, gazebo, or trampoline be constructed on any Lot in the front or side yards, as determined by the building lines applicable to the Lot. No above-ground pools (except for wading pools no deeper than 2 feet tall and no wider than 10 feet in diameter, which shall be regulated by the Master ARC) shall be allowed or approved by the Master ARC on any Lot. Wading pools shall only be allowed during appropriate weather and must be emptied and stored when not in use.

(u) Solar Equipment. No solar heating equipment or device is permitted outside the residence except such devices whose installation and use is protected by federal or North Carolina law. Notwithstanding such protection, an application for such equipment or device must be submitted for approval under Article IV prior to installation and approval will be granted only if:

- (i) First, such equipment or device is designed for minimal visual intrusion when installed (*i.e.*, is located in a manner which minimizes visibility from the street or an adjacent Lot and is consistent with the Community-Wide Standard); and

- (ii) Second, the equipment or device complies to the maximum extent feasible with the Architectural Guidelines within the confines of the applicable governmental regulations.

EXHIBIT "C"**By-Laws of Chatsworth Homeowners Association, Inc.****Article I: Name, Principal Office and Definitions**1.1 Name.

The name of the corporation is Chatsworth Homeowners Association, Inc. (the "Association").

1.2 Principal Office.

The Association's principal office shall be located in Mecklenburg County or Union County, North Carolina. The Association may have other offices, either within or outside North Carolina, as the Board of Directors determines or as the Association's affairs require.

1.3 Definitions.

The words used in these By-Laws shall have their normal, commonly understood definitions. Capitalized terms shall have the same meaning as set forth in the Declaration of Covenants, Conditions, and Restrictions for Chatsworth, as it may be amended ("Declaration"), unless the context indicates otherwise.

Article II: Membership: Meetings, Quorum, Voting, Proxies2.1 Membership.

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

2.2 Place of Meeting.

The Association shall hold meetings as its principal office or at such other suitable place convenient to the Members as the Board may designate.

2.3 Annual Meetings.

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

2.4 Special Meetings.

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

If the President does not send notice of a special meeting pursuant to Section 2.5 within 30 days after the date written demand is delivered to the Association's Secretary, any Member signing the demand may set the time and place of the special meeting and give the Association notice pursuant to Section 2.5.

2.5 Notice of Meetings.

The Association's Secretary shall cause written notice stating the place, day, and hour of any Association meeting to be given in any manner permitted by North Carolina law. If permitted, notice may be posted in a conspicuous, prominent place within the Community, delivered by hand delivery, or sent by facsimile, electronic mail, or other electronic communication device, or such other manner which is reasonably calculated, as determined in the Board's discretion, to provide personal notice to Members. Notice shall be given at least 10 but less than 60 days before the date of the meeting, by or at the direction of the President, the Secretary, or the officers or Persons calling the meeting. Failure to receive actual notice of an Association meeting shall not affect the validity of any action taken at such meeting.

The purpose or purposes for which the meeting is called shall be stated in the notice. No other business shall be transacted at a special meeting except as stated in the notice.

If posted, notice shall be deemed delivered when posted. Other notices shall be deemed delivered as provided in Section 6.5.

2.6 Waiver of Notice.

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

2.7 Adjournment of Meetings.

If the Association cannot hold a meeting because a quorum is not present, a majority of the Members who are present may adjourn the meeting to a time at least five but not more than 30 days from the date called for the original meeting. At the reconvened meeting, pursuant to N.C.G.S. 47F-3-110, if Members totaling at least one-half of the number required for a quorum is present, any business may be transacted which might have been transacted at the meeting originally called. If those in attendance at the original meeting do not fix a time and place for reconvening the meeting or if for any reason a new date is fixed for reconvening the meeting after adjournment, the Association shall give the Members notice of the time and place for reconvening the meeting in the manner prescribed for regular meeting.

2.8 Voting.

Members shall have such voting rights as are set forth in the Declaration, which provisions are incorporated herein by this reference.

2.9 Proxies.

A Member may cast the vote for his or her Lot in person or by proxy, subject to North Carolina law.

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

Every proxy shall be revocable and shall automatically cease upon: (a) conveyance of any Lot for which it was given, (b) actual notice of revocation of the proxy or of the death or judicially declared incompetence of a Member who is an individual given to the person presiding over a meeting of the Association, or (c) 11 months from the date of the proxy, unless the proxy specifies a shorter period.

2.10 Majority.

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

2.11 Quorum.

Except as these By-Laws or the Declaration may otherwise provide, the presence of Members, either personally or by proxy, representing 10% of the total Class "A" votes in the Association shall constitute a quorum at all Association meetings.

2.12 Conduct of Meetings.

The President or other Board designee shall preside over all Association meetings. The Secretary shall ensure that minutes of the meeting are kept and that all resolutions adopted and all other transactions occurring at such meetings are recorded in the Association's minute book.

2.13 Action Without a Meeting.

Without holding a meeting pursuant to Section 2.3 or 2.4, Members may take any action that North Carolina law requires or permits the Members to take at a meeting (subject to any limitation in the Declaration) if 100% of the Class "A" Members entitled to vote on such action sign a written consent specifically authorizing the proposed action. The Association need not give prior notice before soliciting such consent; provided, the Association must send written consent forms to all Members. Members shall sign, date, and deliver such consents to the Association within 60 days after the Association's receipt of the earliest dated consent. The

Association's Secretary shall file such consents with the Association's minutes and the consents shall have the same force and effect as a vote of the Members at a meeting.

Article III: Board of Directors: Section, Meeting, Powers

A. Composition and Selection.

3.1 Governing Body: Composition.

The Association's affairs shall be governed by a Board of Directors. Each director shall have one vote. Directors need not be Members or residents of the Community. A director must be at least 18 years old. In the case of a Member who is not an individual, any officer, director, partner, or trust officer of such Member shall be eligible to serve as a director unless otherwise specified by written notice to the Association signed by such Member; provided, no Member may have more than one such representative on the Board at a time, except in the case of directors the Class "B" Member appoints.

3.2 Number of Directors.

The initial Board shall consist of the three directors identified in the Articles of Incorporation.

3.3 Directors During Class "B" Control Period.

The Class "B" Member shall have complete discretion in appointing all of the directors during the Class "B" Control Period. Class "B" Member-appointed directors shall serve at the pleasure of the Class "B" Member.

3.4 Nomination and Election Procedures.

(a) Nominations and Declarations of Candidacy. Within 90 days of the termination of the Class "B" Control Period, and prior to each election of directors, the Board shall prescribe the opening date and the closing date of a reasonable filing period in which every eligible person who has an interest in serving as a director may file as a candidate for any position to be filled by Class "A" votes. A Nominating Committee also may make nominations for election to the Board. The Nominating Committee, if any, shall consist of a Chairman, who shall be a member of the Board, and two or more Members or representatives of Members. The Nominating Committee, if any, may make as many nominations for election to the Board as it shall in its discretion determine. In making its nominations, the Nominating Committee shall use reasonable efforts to nominate candidates representing the diversity which exists within the pool of potential candidates. The Board also may permit nominations from the floor.

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

(b) Election Procedures. A Member may cast the votes assigned to the Lots which he or she owns for each position to be filled from the slate of candidates on which he or she is

entitled to vote. Cumulative voting is not allowed. The number of candidates which equals the number of positions to be filled and receiving the greatest number of votes shall be elected.

3.5 Election and Term of Office.

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

(a) During the Class "B" Control Period, Declarant shall appoint all of the directors.

(b) Within 90 days after termination of the Class "B" Control Period, the President shall call for an election by which the Class "A" Members shall be entitled to elect two of the three directors. The remaining one director shall be an appointee of the Class "B" Member. The directors elected by the Class "A" Members shall not be subject to removal by the Class "B" Member and shall serve until the first annual meeting following the termination of the Class "B" Control Period.

(c) Not later than the first annual meeting after the termination of the Class "B" Control Period, an election shall be held at which the Class "A" Members shall elect four of the five directors, with the two directors receiving the largest number of votes being elected for a term of two years and the remaining two directors being elected for a term of one year.

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

Thereafter, directors shall be elected to serve two-year terms. Notwithstanding the stated length of any term, directors shall hold office until their respective successors have been elected. Directors may not serve more than two consecutive two-year terms.

3.6 Removal of Directors and Vacancies.

Any Class "A" director may be removed, with or without cause, by the vote of Class "A" Members holding a majority of the votes entitled to be cast for the election of such director. Any director whose removal is sought shall be given notice prior to any meeting called for that purpose. Upon removal of a director, a successor shall be elected by the Class "A" Members entitled to elect the director so removed to fill the vacancy for the remainder of such director's term. Class "A" directors may not be removed by the Class "B" Member.

Any Class "A" director who has three consecutive unexcused absences from Board meetings, or who is more than 30 days delinquent (or occupies a Lot for which assessments are so delinquent) in the payment of any assessment or other charge due the Association may be removed by a majority vote of the Board, excluding the director at issue. If the director is removed, the Board may appoint a successor to fill the vacancy for the remainder of the term.

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

This Section shall not apply to directors the Class "B" Member appoints nor to any director serving as Declarant's representative. The Class "B" Member or Declarant shall be entitled to appoint a successor to fill any vacancy on the Board resulting from the death, disability, or resignation of a director appointed by or elected as a representative of the Class "B" Member or Declarant.

B. Meetings.

3.7 Organizational Meetings.

The Board shall hold its first meeting within 10 days following each annual membership meeting at such time and place as the Board shall fix.

3.8 Regular Meetings.

The Board may hold regular meetings at such time and place as the Board shall determine, provided the Board shall hold at least four such meetings during each fiscal year with at least one per quarter.

3.9 Special Meetings.

The Board shall hold special meetings when called by written notice signed by the President, Vice President, or any two directors.

3.10 Notice; Waiver of Notice.

(a) Notices of Board meetings shall specify the time and place of the meeting and, in the case of a special meeting, the nature of any special business to be considered. The Board shall give notice to each director by: (i) personal delivery; (ii) first class airmail, postage prepaid; (iii) telephone (either directly to the director or to a person at the director's office or home who would reasonably be expected to communicate such notice promptly to the director); or (iv) facsimile, electronic mail, or other electronic communication device, with confirmation of transmission. All such notices shall be given at the director's telephone number, fax number, electronic mail address, or sent to the director's address as shown on the Association's records. Notices sent by first class mail shall be deposited into a United States Postal Service mailbox at least five business days before the time set for the meeting. Notices given by personal delivery, telephone, or other device shall be delivered or transmitted at least 72 hours before the time set for the meeting.

(b) Except for emergency meetings, notice of a Board meeting shall be posted in a conspicuous place within the Community at least 48 hours in advance of the meeting or provided in any other manner reasonably anticipated to provide notice to all Members, including publication in an Association newsletter with community-wide circulation, posting on a

Community cable television channel, or posting on a Community Internet or intranet page. In lieu of notice of each regular Board meeting, the Board may post or public a schedule of upcoming Board meetings.

(c) Transactions of any Board meeting, however called and noticed or wherever held, shall be as valid as though taken at a meeting duly held after regular call and notice if (i) a quorum is present, and (ii) either before or after the meeting each director not present signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes. The waiver of notice or consent need not specify the meeting's purpose. Notice of a meeting also shall be deemed given to any director who attends the meeting without protesting before or at its commencement about the lack of adequate notice.

(d) Notice of any meeting at which assessments are to be established shall state that fact and the nature of the assessment.

3.11 Telephonic Participating in Meetings.

Members of the Board or any committee designated by the Board may participate in a Board or committee meeting by means of telephone or other electronic means, through which all persons participating in the meeting can hear each other. Participation in this manner shall constitute presence at the meeting for all purposes.

3.12 Quorum of Board.

At all Board meetings, a majority of the directors shall constitute a quorum for the transaction of business, and the votes of a majority of the directors present at a meeting at which a quorum is present shall constitute the Board's decision, unless these By-Laws or the Declaration specifically provide otherwise. A meeting at which a quorum is initially present may continue, notwithstanding the withdrawal of directors, if at least a majority of the required quorum for that meeting approves any action taken. If the Board cannot hold a meeting because a quorum is not present, a majority of the directors present at such meeting may adjourn the meeting to a time not less than five nor more than 30 days from the date of the original meeting. At the reconvened meeting, if a quorum is present, any business which might have been transacted at the meeting originally called may be transacted without further notice.

3.13 Conduct of Meetings.

The President or any designee the Board approves shall preside over all Association meetings. The Secretary shall ensure that minutes of the meetings are kept and that all resolutions adopted and all other transactions occurring at such meetings are recorded with the Association's records.

3.14 Open Meetings; Executive Session.

Subject to the provisions of Section 3.15, all Board meetings shall be open to all Owners. However, attendees other than directors may not participate in any discussion or deliberation unless a director requests that they be granted permission to speak, and the Board concurs. In such case, the President may limit the time any such individual may speak.

Notwithstanding the above, the President may adjourn any Board meeting and reconvene in executive session, and may exclude persons other than directors, to discuss with the Association's attorney matters relating to pending or threatened litigation which are protected by the attorney-client privileges, or to discuss among the Board any other matter of a sensitive nature, if North Carolina law permits.

3.15 Action Without a Formal Meeting.

Any action to be taken or which may be taken at a Board meeting may be taken without a meeting if all directors sign a consent in writing, setting forth the action so taken. Such consent shall have the same force and effect as a unanimous vote.

C. Powers and Duties.

3.16 Powers.

The Board shall have all of the powers and duties necessary to administer the Association's affairs, perform the Association's responsibilities, and exercise the Association's rights as set forth in the Governing Documents, and as provided by law. The Board may do or cause to be done on the Association's behalf all acts and things except those which the Governing Documents or North Carolina law require to be done and exercised exclusively by the membership generally.

3.17 Duties.

The Board's duties shall include, without limitation:

- (a) adopting, in accordance with the Declaration, an annual budget establishing each Owner's share of the Common Expenses;
- (b) providing for the operation, care, upkeep, and maintenance of the Common Maintenance Area consistent with the Community-Wide Standard;
- (c) designating, hiring, and dismissing personnel necessary to carry out the Association's rights and responsibilities and where appropriate, providing for compensation of such personnel and for the purchase of necessary equipment, supplies, and materials;
- (d) depositing all funds received on the Association's behalf in a bank depository which the Board shall approve, and using such funds to operate the Association; provided, any reserve funds may be deposited, in the Board's business judgment, in depositories other than banks;
- (e) opening bank accounts on the Association's behalf and designating the signatories required;
- (f) making or contracting for the making of repairs, additions, and improvements to or alterations of the Common Area in accordance with the Declaration and these By-Laws;

(g) after termination of the Class "B" Control Period, submitting for bid any planned Association expenditure (whether for capital items, services, maintenance, or otherwise) anticipated to exceed \$25,000.00 in any fiscal year; provided, the Board is not obligated to contract with or otherwise retain the services of the lowest bidder; and provided further, the Board is not obligated to submit for bid the renewal of existing contracts;

(h) enforcing the Governing Documents by legal or equitable means and bringing any proceedings which maybe instituted on behalf of or against the Owners concerning the Association; provided, the Association's obligation in this regard shall be conditioned in the manner provided in the Declaration;

(i) making available to any Owner and the holders, insurers, and guarantors of any Mortgage on any Lot current copies of the Governing Documents and all other Association books, records and financial statements as provided in Section 6.4;

(j) permitting utility suppliers to use portions of the Common Area reasonably necessary to the ongoing development or operation of Chatsworth;

(k) indemnifying an Association director, officer, committee member, or the Association's management agent, or former Association director, officer, committee member, or management agent, to the extent such indemnify is required by North Carolina law, the Articles of Incorporation, or the Declaration; and

(l) maintaining the Association's official records.

3.18 Compensation.

The Association shall not compensate a director for acting as such. The Association may reimburse any director for expenses incurred on the Association's behalf if approved by a majority of the other directors. In addition, subject to Section 3.26, nothing herein shall prohibit the Association from compensating a director for services or supplies he or she furnishes to the Association in a capacity other than as a director pursuant to a contract or agreement with the Association. The foregoing also applies to any entity with which a director is affiliated.

3.19 Right of Class "B" Member to Disapprove Actions.

During the period of Class "B" membership, the Class "B" Member shall have a right to disapprove any action, policy, or program of the Association, the Board, and any committee which, in the Class "B" Member's sole and absolute judgment, would tend to impair rights of interests of Declarant or any Builder, interfere with development or construction of any portion of the Community, or diminish the level of services the Association provides.

(a) Notice. The Association, the Board, and each committee shall give the Class "B" Member written notice of their meetings and proposed actions to be approved at their meetings (or by written consent in lieu of a meeting). The notice shall comply with Section 3.10 and shall, except in the case of the regular meetings held pursuant to these By-Laws, set forth with reasonable particularity the agenda to be followed at such meeting.

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

(c) Exercise of Rights. The Class “B” Member, its representatives or agents, shall make its concerns, thoughts, and suggestions known to the Board and/or the members of the subject committee. The Class “B” Member may exercise its right to disapprove at any time within 10 days following the meeting at which such action was proposed or, if the action is approved without a meeting, at any time within 10 days following receipt of written notice of the proposed action. This right to disapprove may be used to block proposed actions but shall not include a right to require any action or counteraction by the Association, the Board, or any committee. The Class “B” Member shall not use its right to disapprove to reduce the level of services which the Association is obligated to provide or to prevent capital repairs or any expenditure required to comply with applicable laws and regulations.

(d) Condition of Implementation. No action, policy, or program subject to the Class “B” Member’s right of disapproval shall become effective or be implemented until and unless the requirements of subsections (a) and (b) above have been met.

3.20 Management.

The Board may employ a professional management agent or agents, at such compensation as the Board may establish, to perform such duties and services as the Board shall authorize and are otherwise within the scope of the Board’s authority. The Board may delegate such powers as are necessary to perform the manager’s assigned duties, but shall not delegate policy-making authority or those duties set forth in Section 3.17(a) (with respect to adoption of the budget). The Board may contract with or employ Declarant as management agent or manager.

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

Except for a contract which was not bona fide or was unconscionable to the Owners at the time entered into under the circumstances then prevailing (as provided in the North Carolina Planned Community Act), the Class “A” Members may not terminate a management contract during the Class “B” Control Period. Unless the Board otherwise grants such right, or unless the management contract otherwise provides, the Board may act in its discretion with respect to executing and terminating management contracts during the Class “B” Control Period. After the Class “B” Control Period terminates, the Association may not terminate any management contract, or retain a new managing agent, without the approval of Members representing a majority of the Association’s total Class “A” votes. In addition, Declarant’s consent shall be required.

Any management contract may, among other things, authorize the managing agent to act as the Association’s agent with respect to the expenditure of Association funds within the scope

of the approved Association budget; provided, the managing agent shall not be permitted to spend money in excess of the budget or reallocate greater than 10% of any budget line item without the Board's prior approval.

3.21 Accounts and Reports.

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

- (a) accounting and controls should conform to generally accepted accounting principles;
- (b) the Association's cash accounts shall not be commingled with any other accounts;
- (c) the managing agent shall accept no remuneration from vendors, independent contractors, or others providing goods or services to the Association, whether in the form of commissions, finder's fees, service fees, prizes, gifts, or otherwise; the Association shall benefit from anything of value received;
- (d) the managing agent shall disclose promptly to the Board any financial or other interest which it may have in any firm providing goods or services to the Association;
- (e) commencing at the end of the quarter in which the first Lot is sold and closed, the Board shall prepare financial reports for the Association at least annually containing:
 - (i) an income statement reflecting all income and expense activity for the preceding period;
 - (ii) a statement reflecting all cash receipts and disbursements for the preceding period;
 - (iii) a variance report reflecting the status of all accounts in an "actual" versus "approved" budget format;
 - (iv) a balance sheet as of the last day of the preceding period;
 - (v) a delinquency report listing all Owners who are delinquent in paying any assessments at the time of the report (any assessment or installment thereof shall be considered to be delinquent on the 151 day following the due date unless otherwise specified by Board resolution); and
 - (vi) an annual report consisting of at least the following shall be prepared within 60 days after the close of the fiscal year: (i) a balance sheet showing actual receipts and expenditures; (ii) an operating (income) statement; and (iii) a statement of changes in financial position for the fiscal year.

The Association shall provide each Owner or its authorized agent a copy of the annual financial report, excluding the delinquency report, within 10 business days following receipt of a written request for access. In addition, if North Carolina law requires, the Association shall send a copy of the annual report to each Member by mail or personal delivery within 90 days following the close of the fiscal year.

3.22 Right to Contract.

The Association shall have the right to contract with any Person for the performance of various duties and functions. This right shall include, without limitation, the right to enter into common management, operational, or other agreements with trusts, condominiums, cooperatives, or other owners or residents associations, within and outside of the Community.

3.23 Enforcement.

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

(a) **Notice.** The Board or its delegate shall serve the alleged violator with written notice describing (i) the nature of the alleged violation; (ii) the proposed sanction to be imposed; (iii) a period of not less than 15 days within which the alleged violator may present a written request for a hearing to the Board; and (iv) a statement that the proposed sanction shall be imposed as contained in the notice unless the alleged violator challenges the violation within the period allowed in the notice. If a timely request for a hearing is not made, the sanction stated in the notice shall be imposed; provided, the Board or Covenants Committee may suspend any proposed sanction if the violation is cured, or if a diligent effort is made to cure, within the allotted period. Such suspension shall not constitute a waiver of the right to sanction future violations of the same or other provisions and rules by any Person.

(b) **Hearing.** If the alleged violator requests a hearing within the allotted period, the hearing shall be held before the Covenants Committee. The alleged violator shall be afforded a reasonable opportunity to be heard. Prior to the effectiveness of any sanction hereunder, proof of proper notice shall be placed in the minutes of the meeting. Such proof shall be deemed adequate if a copy of the notice, together with a statement of the date and manner of delivery, is entered by the officer, director, or agent who delivered such notice. The notice requirement shall be deemed satisfied if the alleged violator or its representative appears at the meeting. The minutes of the meeting shall contain a written statement of the results of the hearing and the sanction, if any, imposed.

(c) **Appeal.** Following a hearing before the Covenants Committee, the alleged violator shall have the right to appeal the decision to the Board. To exercise this right, the alleged violator must submit a written notice of appeal to the Association's manager, President, or Secretary within 10 days after the hearing date.

(d) **Additional Enforcement Rights.** Notwithstanding anything to the contrary in this Article, if permitted under the Declaration, the Board may elect to enforce any provision of the Governing Documents by self-help (specifically including, but not limited to, towing vehicles

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that violate parking rules) or, following-compliance with the Declaration's dispute resolution procedures, if applicable, by suit at law or in equity to enjoin any violation or to recover monetary damages or both. In any such action, to the maximum extent permissible, the Owner or occupant responsible for the violation of which abatement is sought shall pay all costs, including reasonable attorneys' fees actually incurred.

3.24 Board Training Seminar.

The Board shall provide or provide for seminars and continuing educational opportunities designed to educate and inform directors of their responsibilities as directors. Such program shall include instruction on applicable North Carolina corporate and fiduciary law principles, other issues relating to administering the Community's affairs, and upholding and enforcing the Governing Documents. The Board may retain industry professionals, which may include property managers, attorneys, and accountants, as appropriate or necessary for such purpose. Each newly elected, and each re-elected director may be required to complete a training seminar within the first six months of assuming the director position.

3.25 Board Standards.

In performing their duties, directors and officers shall act as fiduciaries and are subject to insulation from liability as provided for directors of corporations by North Carolina law and as otherwise provided by the Government Documents. Directors shall exercise the ordinary and reasonable care of directors of a corporation, subject to the business judgment rule.

A director shall act in accordance with the business judgment rule so long as the director:

- (a) acts within the expressed or implied scope of the Governing Documents and his or her actions are not *ultra vires*;
- (b) affirmatively undertakes to make decisions which are necessary for the Association's continued and successful operation and, when decisions are made, they are made on an informed basis;
- (c) acts on a disinterested basis, promptly discloses any real or potential conflict of interests (pecuniary or other), and avoids participation in such decisions and actions; and
- (d) acts in a non-fraudulent manner and without reckless indifference to the Association's affairs.

A director acting in accordance with the business judgment rule shall be protected from personal liability. Unless the Governing Documents require that specific action be taken, the failure to take such specific action shall not, without further showing that the Board acted in violation of the business judgment rule, be deemed a violation of a Board duty.

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

3.26 Conflicts of Interest; Code of Ethics.

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

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

The initial Board shall create and adopt a written "Code of Ethics" applicable to all directors and officers. The Code of Ethics shall incorporate the above standards and other conduct rules it deems appropriate. Each officer and director, as a pre-condition to service, shall acknowledge and agree, in writing, to abide by the Code of Ethics.

Article IV: Officers

4.1 Officers.

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

4.2 Election and Term of Office.

The Board shall elect the Association's officers at the first Board meeting following each Association annual meeting. Officers shall serve until their successors are elected. Officers may not hold the same office for more than two consecutive terms.

4.3 Removal and Vacancies.

Any officer may be removed by a vote of a least 2/3 of the directors. The Board shall appoint a replacement to fill any vacancy in any office for the unexpired portion of the term.

4.4 Powers and Duties.

The Association's officers each shall have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as the Board may specifically confer or impose. The President shall be the Association's chief executive officer. The Treasurer shall supervise the preparation of the Association's budget, but shall delegate all or part of the preparation and notification duties to a finance committee, management agent, or both. The

Secretary shall prepare or supervise the preparation of meeting minutes as required by North Carolina law.

4.5 Resignation.

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

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

All agreements, contracts, deeds, leases, checks, and other Association instruments shall be executed by an officer, unless the Board provides otherwise, or by such other person or persons as the Board may designate by resolution.

4.7 Compensation.

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

Article V: Committees

5.1 General.

The Board may create such committees as it deems appropriate to perform such tasks and to serve for such periods as the Board may designate by resolution.

In an effort to encourage and incorporate a broad base of Owner and resident participation, in community governance, it shall be the Association's policy that the Board create and delegate its responsibilities to committees as reasonably appropriate.

Committees shall exercise only such authority as granted by Board resolution, provided the Board may, in the exercise of its reasonable discretion, elect not to follow a committee's advice on any matter. Committees may not act without specific Board authority and may not bind the Association contractually or financially. Committee members may serve no more than two consecutive two-year terms on the same committee.

5.2 Covenants Committee.

The Board shall appoint a Covenants committee consisting of at least three members. The Covenants Committee members shall be Members of the Association who are not directors, officers, or employees of the Association or the spouse, parent, child, brother or sister of a director, officer, or employee. Acting in accordance with the provisions of the Declaration, these By-Laws, and any Board resolutions, the Covenants Committee shall be the Association's hearing tribunal and shall conduct all hearings held pursuant to Section 3.23.

5.3 Other Committees.

In addition to the above, the Board may create additional committees, as it deems necessary and useful. The following are examples of types of committees, along with their purpose, which the Board may create:

(a) Finance Committee - actively assist the Board, the Treasurer, and the Association's managing agent, if any, in preparing the Association's budget.

(b) Physical Maintenance Committee - preside over maintenance of the Common Maintenance Areas.

(c) Dispute Resolution Committee - mediate disputes concerning the interpretation of Use Restrictions, rules and other Government Document provisions and advise the Board on initiating litigation involving the Association (as provided in the Declaration); provided, the Dispute Resolution Committee shall not preside over matters relating to the collection of assessments or other fees and charges. Each member of the Dispute Resolution Committee shall attend a Board-approved course on dispute resolution.

The Board may establish by resolution the specific scope and limitations on the authority of the above committees.

5.4 Compensations.

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

Article VI: Miscellaneous

6.1 Fiscal Year.

The Association's fiscal year shall be the calendar year unless otherwise established by Board resolution.

6.2 Parliamentary Rules.

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

6.3 Conflicts.

Conflicts between or among the Governing Documents and North Carolina law governing documents shall be resolved as directed in the Declaration.

6.4 Books and Records.

(a) Inspection by Members and Mortgagees. The Board shall make available for inspection and copying by any holder, insurer, or guarantor of a first Mortgage on a Lot, any Member, or the duly appointed representative of any of the foregoing at any reasonable time and

for a purpose reasonably related to her or her interest in a Lot: the Governing Documents, the membership register, books of account, and the minutes of meetings of the Members, the Board, and committees. The Board shall provide for such inspection to take place at the Association's office or at such other place within the Community as the Board shall designate.

(b) **Rules for Inspection.** The Board shall establish reasonable rules with respect to (i) notice to be given to the custodian of the records; (ii) hours and days of the week when such an inspection may be made; and (iii) payment of the cost of reproducing documents requested. Records shall be made available within 10 business days of the receipt of a written request by an Owner or his or her authorized agent.

6.5 Notices.

Except as the Declaration or these By-Laws otherwise provide, all notices, demands, bills, statements, or other communications under the Declaration or these By-Laws shall be in writing and shall be deemed to have been duly given if delivered personally or by private carrier; if sent by United States mail; or, if the intended recipient has given its prior written authorization to use such method of delivery, by facsimile, or electronic mail within written confirmation of transmission. Notices shall be delivered or sent to the intended recipient as follows:

(a) if to a Member, at the address which the Member has designated in writing and filed with the Secretary or, if no such address has been designated, at the address of the Lot of such Member;

(b) if to the Association, the Board or the managing agent, at the principal office of the Association or the managing agent or at such other address as shall be designated by notice in writing to the Members pursuant to this Section; or

(c) if to any committee, at the principal address of the Association or at such other address as shall be designated by notice in writing to the Members pursuant to this Section.

Notices shall be deemed to have been duly given and effective:

- (i) if sent by United States Mail, when deposited with the U.S. Postal Service, correctly addressed, with first class postage prepaid;
- (ii) if delivered personally or by private carrier, when actually delivered to the address of the intended recipient, as evidenced by the signature of the person at such address who accepts such delivery; or
- (iii) if sent by facsimile or electronic mail, upon transmission, as evidenced by a printed confirmation.

6.6 Amendment.

(a) By Class "B" Member. During the Class "B" Control Period, the Class "B" Member unilaterally may amend these By-Laws. Thereafter, the Class "B" Member unilaterally may amend these By-Laws at any time and from time to time if such amendment is necessary (i)

to bring any provision into compliance with any applicable governmental statute, rule, or regulation, or judicial determination; (ii) to enable any reputable title insurance company to issue title insurance coverage on the Lots; or (iii) to enable any institutional or governmental lender, purchaser, insurer, or guarantor of mortgage loans, including, for example, the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation, to make purchase, insure, or guarantee mortgage loans on the Lots. No amendment may adversely affect the title to any Lot unless the Owner shall consent thereto in writing.

So long as the U.S. Department of Veterans Affairs (if it is then guaranteeing Mortgages in the Community or has issued a project approval for the guaranteeing of such mortgages) and/or the U.S. Department of Housing and Urban Development (if it is then insuring any Mortgage in the Community or has issued a project approval for the insuring of such mortgages) shall have the right to veto amendments to these By-Laws for as long as Declarant has the right to appoint and remove directors and officers of the Association.

(b) By the Members. Except as provided above, these By-Laws may be amended only by the affirmative vote or written consent of Members representing at least 67% of the Association's total Class "A" votes, and the consent of the Class "B" Members, if such exists. Notwithstanding the above, the percentage of votes necessary to amend a specific clause shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause.

(c) Validity and Effective Date of Amendments. Amendments to these By-Laws shall become effective upon recordation unless a later effective date is specified therein. Any procedural challenge to an amendment must be made within six months of its recordation, or such amendment shall be presumed to have been validly adopted. In no event shall a change of conditions or circumstances operate to amend any provisions of these By-Laws.

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

In addition, for any amendment, the approval requirements set forth in Article XIII of the Declaration also shall be met, if applicable.