

FILED
UNION COUNTY
**CRYSTAL CRUMP
REGISTER OF DEEDS**

FILED Mar 06, 2008
AT 08:16:00 am
BOOK 04829
START PAGE 0001
END PAGE 0004
INSTRUMENT # 08274
EXCISE TAX (None)
SWC

STATE OF NORTH CAROLINA

COUNTY OF UNION

**SECOND AMENDMENT TO DECLARATION OF
COVENANTS, CONDITIONS AND RESTRICTIONS**

CHATSWORTH

THIS SECOND AMENDMENT TO DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS – CHATSWORTH (this “Second Amendment”) is made and entered into effective as of the 1st day of January, 2008, by CHATSWORTH, LLC, a North Carolina limited liability company (“Declarant”) and CHATSWORTH HOMEOWNERS ASSOCIATION, INC. a North Carolina non-profit corporation (“Chatsworth HOA”).

WITNESSETH:

WHEREAS, by that certain Declaration of Covenants, Conditions and Restrictions – Chatsworth (the “Original Declaration”), dated May 23, 2005, and recorded in Book 3784 at Page 770 of the Union County Public Registry, and amended by that certain Amendment to Declaration of Covenants, Conditions and Restrictions – Chatsworth (the “First Amendment”), dated November, 2005, which was recorded in Book 3795 at Page 813 of the Union County Public Registry (the Original Declaration, as amended by the First Amendment, is referred to herein as the “Declaration”), Declarant subjected certain real property located in Catawba County, North Carolina, to the Declaration;

WHEREAS, Declarant, pursuant to Article XVII, Section 1 of the Declaration has the right to amend the Declaration;

WHEREAS, Declarant desires to amend the Declaration by providing for an additional assessment as set forth in this Second Amendment; and

WHEREAS, Chatsworth HOA desires that Declarant amend the Declaration in the manner set forth herein, and executes this Second Amendment to evidence its acknowledgement and consent thereto.

NOW, THEREFORE, Declarant, in consideration of the foregoing recitals, does hereby declare as follows:

1. Article VIII of the Declaration is hereby supplemented by adding the following Section 8.10:

8.10 Lot Transfer Assessment.

Notwithstanding anything to the contrary as set forth in the Declaration, effective as of January 1, 2008, each new Owner, shall pay to the Association an assessment equal to five hundred dollars (\$500.00) at the closing of the transfer of title to a Lot to such new Owner (the "Lot Transfer Assessment"). The Lot Transfer Assessment shall be used by the Association to fund budget reserves described in Section 8.2, and shall be secured by the Association's lien for assessments as set forth by the Declaration, which lien shall not be affected by the transfer of title. Each Owner transferring a Lot shall notify the Association's secretary or designee at least seven (7) days prior to the scheduled closing of a Lot. Such notice shall include the name of the buyer, the date of title transfer, and other information the Association may reasonably require.

Notwithstanding the foregoing, no Lot Transfer Assessment shall be levied upon transfer of title to Lots: (i) to the Declarant; (ii) to the Owner's estate, surviving spouse, or heirs at law upon the death of the Owner; (iii) to an institutional lender as security for the performance of an obligation pursuant to a Mortgage; (iv) to the Association; or (v) to a builder purchasing the Lot for the purpose of constructing a single-family dwelling thereon for sale to third-party occupants.

2. In the event of any inconsistency between the terms and provisions set forth in this Second Amendment and those set forth in the Declaration, the terms and provisions of this Second Amendment shall prevail.
3. All capitalized terms not otherwise defined in this Second Amendment shall have the same meaning as in the Declaration. All covenants, conditions, restrictions, and easements established by and contained in the Declaration shall remain unchanged and in full force and effect, as hereby supplemented, amended and modified.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Declarant has executed this Second Amendment the day and year first above written.

CHATSWORTH, LLC,
a North Carolina limited liability company

By: Pappas Properties, LLC, its manager

By: *Peter A. Pappas*
President

STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

I certify that the following person(s) personally appeared before me this day, each acknowledging to me that he or she signed the foregoing document for the purpose stated therein: PETER A. PAPPAS .(name of principal(s))

Date: 2/26/08

Barbara R. Wilfley
Official Signature of Notary Public

BARBARA R. WILFLEY
Notary printed or typed name

My commission expires: 11/1/2012



[execution continues on the following page]

CHATSWORTH HOMEOWNERS
ASSOCIATIONS, INC.,
a North Carolina non-profit corporation

By: W. Martin Davis
Name: W. MARTIN DAVIS
Title: President

STATE OF NORTH CAROLINA

COUNTY OF Mecklenburg

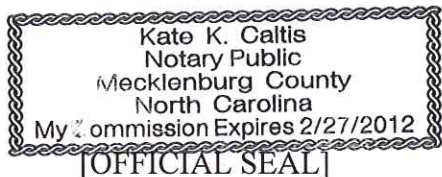
I certify that the following person(s) personally appeared before me this day, each acknowledging to me that he or she signed the foregoing document for the purpose stated therein: W. Martin Davis *(name of principal(s))*

Date: 2-26-2008

Kate K. Caltis
Official Signature of Notary Public

Kate K. Caltis
Notary printed or typed name

My commission expires: 2-27-2012



Filed for record
Date 11.29., 2005
Time 2:10 o'clock P
Crystal D. Crump, Register of Deeds
Union County, Monroe, North Carolina
SC



07111

STATE OF NORTH CAROLINA
COUNTY OF UNION

**AMENDMENT TO DECLARATION OF
COVENANTS, CONDITIONS AND RESTRICTIONS
CHATSWORTH**

THIS AMENDMENT TO DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS – CHATSWORTH (this “Amendment”) is made and entered into this ____ day of November, 2005, by CHATSWORTH, LLC, a North Carolina limited liability company (“Declarant”).

WITNESSETH:

WHEREAS, by that certain Declaration of Covenants, Conditions and Restrictions – Chatsworth (the “Declaration”), dated May 23, 2005, and recorded in Book 3784 at Page 770 in the Office of the Register of Deeds of Union County, Declarant subjected certain real property located in Catawba County, North Carolina, to the Declaration;

WHEREAS, Declarant, pursuant to Article XVII, Section 1 of the Declaration has the right to amend the Declaration; and

WHEREAS, Declarant desires to amend certain provisions of the Declaration as set forth below.

NOW, THEREFORE, Declarant, in consideration of the foregoing recitals, does hereby declare as follows:

- 1. Exhibit “B” of the Declaration is hereby supplemented by adding the following paragraph (v):

2365367.01
LIB: CHARLOTTE

(v) Walls, Fences, Hedges, Berms. No wall shall be erected or maintained nearer to the front lot line than the rear building corners on such Lot, nor on corner Lots nearer to the side lot line than the rear building corners parallel to the rear to the side street. No side or rear fence, wall or hedge shall be more than six (6) feet in height. Prior to commencing the addition or modification of any wall or fence, plans for such improvements shall be submitted to the ARC. Any wall fence or hedge erected on a Lot shall be maintained by the Owner thereof. All fencing shall be constructed only or ornamental, wrought iron, such styling to be approved in advance by the ARC. Berms or banks are not permitted unless created by Declarant or Developer during the building and/or development process. All retaining walls, except as installed by the Declarant or Developer, require ARC approval.

2. Paragraph (a) in Exhibit "B" of the Declaration is hereby amended to allow Doberman Pinchers to be raised, bred, and kept within the Community.

3. The first paragraph in Section 8.5 of the Declaration is hereby deleted and replaced with the following paragraph:

The obligation to pay assessments commences as to each Lot on the first day of the month following the month in which the Lot is made subject to this Declaration by the recordation of a plat depicting the Lot. Regular and Special Assessments shall be levied equally against all Lots subject to such assessments. The first annual Regular Assessment levied on each Lot shall be adjusted according to the number of months remaining in the fiscal year at the time assessments commence on the Lot.

4. All capitalized terms not otherwise defined in this Amendment shall have the same meaning as in the Declaration. All covenants, conditions, restrictions, and easements established by and contained in the Declaration shall remain unchanged and in full force and effect, as hereby supplemented, amended and modified.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Declarant has executed this Amendment the day and year first above written.

CHATSWORTH, LLC, a North Carolina limited liability company

By: Pappas Properties, LLC, its manager

By: [Signature]
Manager

STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

I, Diane Bost a Notary Public of the County and State aforesaid, certify that Charles E. Teal personally came before me this day and acknowledged that he is Manager of Pappas Properties, LLC, a North Carolina limited liability company, as Manager of CHATSWORTH, LLC, and that he, as Manager of Pappas Properties, LLC, as manager of CHATSWORTH, LLC, being authorized to do so, executed the foregoing instrument on behalf of the limited liability company.

Witness my hand and official seal, this 21 day of November, 2005.

[NOTARY SEAL]

[Signature]
Notary Public

My commission expires August 21, 2010.

BK 3784 PG 769

**RECORDED
AND
VERIFIED
E/C**

Filed for record

Date 5-23, 2005

Time 10:00 o'clock A m

Crystal D. Crump, Register of Deeds
Union County, Monroe, North Carolina

74828

DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS

FOR

CHATSWORTH

Drawn by and mail to:
Patrick L. Ridinger, Esq.
Kennedy Covington Lobdell & Hickman, LLP
214 N. Tryon Street, 47th Floor
Charlotte, NC 28202

DECLARATION OF COVENANTS, CONDITIONS, AND RESTRICTIONS
FOR
CHATSWORTH

THIS DECLARATION OF COVENANTS, CONDITIONS, AND RESTRICTIONS is made this 23rd day of MAY, 2005, by Chatsworth, LLC, a North Carolina limited liability company.

ARTICLE I Creation of the Community

1.1 Purpose and Intent.

Declarant, as the owner of the real property described in Exhibit "A" (or if not the owner, with the owner's consent), is recording this Declaration to establish a general plan of development for Chatsworth, a planned residential community. This Declaration provides for the Community's overall development, administration, maintenance, and preservation, and provides a flexible and reasonable procedure for its future expansion. An integral part of the development plan is the creation of the Chatsworth Homeowners Association, Inc., an association comprised of all Chatsworth property owners, to own, operate, and/or maintain various common areas and community improvements and to administer and enforce this Declaration and the other Governing Documents.

This document does not and is not intended to create a condominium under North Carolina law.

1.2 Binding Effect.

This Declaration governs the property described in Exhibit "A," and any other property submitted to this Declaration in the future. This Declaration shall run with the title to such property and shall bind anyone having any right, title, or interest in any portion of such property, their heirs, successors, successors-in-title, and assigns.

Declarant, the Association, any aggrieved Owner, and their respective legal representatives, heirs, successors, and assigns may enforce this Declaration. Except as North Carolina law may otherwise require, unless earlier terminated by a recorded termination agreement executed by 100% of the Lot Owners, this Declaration shall be effective for a minimum of 25 years from the date it is recorded. After 25 years, this Declaration may be terminated only by a recorded termination agreement executed by at least 80% of the Owners and by Declarant, if Declarant owns any portion of the Community. Any termination shall be effective as of the date specified in the recorded termination agreement. Nothing in this Section 1.2 shall be construed to permit termination of any easement in this Declaration without the consent of the holder of such easement.

1.3 Governing Documents.

The Governing Documents create a general development plan for Chatsworth. The following diagram identifies and summarizes the Governing Documents, each as they may be amended:

<p>Declaration (Recorded)</p>	<p>creates obligations which are binding upon the Association and all present and future owners of property in Chatsworth</p>
<p>Supplemental Declaration (Recorded)</p>	<p>may subject additional property to the Declaration and/or impose additional obligations or restrictions on such property, or other property subject to the Declaration</p>
<p>Articles of Incorporation (filed with the Department of State)</p>	<p>establishes the Association as a non-profit corporation under North Carolina law</p>
<p>By-Laws (Board initially adopts)</p>	<p>governs the Association’s internal affairs, such as voting rights, elections, meetings, officers, etc.</p>
<p>Architectural Guidelines (Declarant adopts)</p>	<p>establish architectural standards and guidelines for improvements and modifications to Lots, including structures, landscaping, and other items on Lots</p>
<p>Use Restrictions (initial set attached as Exhibit “B”)</p>	<p>govern use of property and activities within Chatsworth</p>
<p>Board Resolutions and Rules (Board adopts)</p>	<p>establishes rules, policies, and procedures for internal governance and Association activities; regulates operation and use of Common Area</p>

Additional restrictions or provisions which are more restrictive than the provisions of this Declaration may be imposed by a Supplemental Declaration(s) on any portion of Chatsworth, in which case, the more restrictive provisions will be controlling. However, no Person shall record any additional covenants, conditions, or restrictions affecting any portion of Chatsworth without Declarant’s prior written consent, so long as Declarant owns any portion of the Community. Thereafter, such Person must obtain the Board’s written consent. All affected Owner’s consent is required in all cases. Any instrument recorded without the required consent is void and of no force and effect.

If there are conflicts between North Carolina law, the Articles, the Declaration, and/or the By-Laws, North Carolina law, the Declaration, the Articles, and the By-Laws (in that order) shall prevail.

The Governing Documents apply to all Owners and any occupants of a Lot. They also apply to tenants, guests, visitors, and invitees.

If any court determines that any provision of this Declaration is invalid, or invalid as applied in a particular instance, such determination shall not affect the validity of other provisions or other applications of the provision.

ARTICLE II Concepts and Definitions

The terms used in the Governing Documents are given their natural, commonly accepted definitions unless otherwise specified. Capitalized terms are defined as follows:

“Additional Property”: That Property described on Exhibit “D” which may be added to this Declaration pursuant to Article IX and upon which the Declarant may develop Lots and Common Area. Declarant is not obligated to add the Additional Property to this Declaration, and may develop any portion of the Additional Property separately from the Community.

“Architectural Guidelines”: The Community’s architectural, design, and construction guidelines and review procedures adopted pursuant to Article IV.

“Architectural Review Committee” or “ARC”: The committee established to review plans and specifications for the construction or modification of improvements and to administer and enforce the architectural controls described in Article IV.

“Articles”: The Articles of Incorporation of Chatsworth Homeowners Association, Inc., filed with North Carolina’s Secretary of State, as they may be amended from time to time.

“Association”: Chatsworth Homeowners Association, Inc., a North Carolina nonprofit corporation, its successors or assigns.

“Benefited Assessment”: Assessments charged against a particular Lot or particular Lots for Association expenses, as described in Section 8.4.

“Board of Directors” or “Board”: The body responsible for the Association’s general governance and administration, selected as provided in the By-Laws.

“Builder”: Any Person who acquires Lots for the purpose of constructing homes for later sale to consumers, or who purchases land within the Community for further subdivision, development, and/or resale in the ordinary course of its business.

“By-Laws”: The By-Laws of Chatsworth Homeowners Association, Inc., as they may be amended from time to time. A copy of the initial By-Laws is attached to this Declaration as Exhibit “C”.

“Class ‘A’ Member”: Each Owner except, during the period of Class ‘B’ membership, Declarant.

“Class ‘B’ Member”: The Declarant.

“Class ‘B’ Control Period”: The time period during which the Class ‘B’ Member may appoint all of the Board members. The Class ‘B’ Control Period ends when any one of the following occurs:

- (a) when 75% of the Lots planned for Chatsworth, as shown on the Preliminary Plan (as the Preliminary Plan may be modified by Declarant from time to time), are issued certificates of occupancy and are owned by Class ‘A’ Members other than Builders,
- (b) December 31, 2017; or
- (c) when, in its discretion, the Class ‘B’ Member so determines.

“Common Area”: All real and personal property, including easements, which the Association owns, leases, or otherwise has a right to possess or use for the common use and enjoyment of the Owners, including all real property designated as “Common Area” or “Open Space” on any Map, including such areas shown on any Map owned by Declarant prior to conveyance by Declarant of such areas to the Association.

“Common Expenses”: The actual and estimated expenses the Association incurs, or expects to incur, for the general benefit of all Owners. Common Expenses include any reserves the Board finds necessary or appropriate. Common Expenses shall include lease payments on any street lights within the Community that are leased by Declarant or the Association from the utility provider furnishing such street lights.

“Common Maintenance Areas”: The Common Area, together with any other area (including, without limitation, any trails or pathways) for which the Association has or assumes maintenance or other responsibility.

“Community” or “Chatsworth”: The real property described in Exhibit ‘A’, together with such additional property, if any, as is subjected to this Declaration in the future.

“Community System(s)” or “System(s)”: Any or all of a central telecommunication receiving and distribution system (e.g., cable television, high speed data/Internet/intranet services, and security monitoring), and its components, including associated infrastructure, equipment, hardware, and software, serving Chatsworth.

“Community-Wide Standard”: The standard of conduct, maintenance, or other activity generally prevailing throughout the Community, or the minimum standards established pursuant to the Architectural Guidelines, Use Restrictions, and Board resolutions, whichever is the highest standard. Declarant initially shall establish such standard. The Community-Wide Standard may contain objective elements, such as specific lawn or house maintenance requirements, and subjective elements, such as matters subject to the Board’s or the ARC’s discretion. The

Community-Wide Standard may or may not be set out in writing. The Community-Wide Standard may evolve as development progresses and as Chatsworth changes.

“Declarant”: Chatsworth, LLC, a North Carolina limited liability company, or any successor or assign as developer of all or any portion of Chatsworth who is designated as Declarant in a recorded instrument the immediately preceding Declarant executes.

“Development Sale Period”: The period during which Declarant owns real property within the Community, or owns any of the Additional Property, or has an unexpired option to unilaterally annex property into the Community.

“Entrance Monument Easement”: The easements reserved by Declarant and granted to the Association in Section 10.8 hereof over, under and across certain areas of the Community for the installation and maintenance of entrance monuments and related improvements to Chatsworth, all as more particularly described in Section 10.8 hereof.

“Landscape and Maintenance Easement”: The easements reserved by Declarant and granted to the Association in Section 10.9 hereof, for the installation, maintenance, and repair of landscaping located within any areas so designated on a recorded Plat containing landscaping and/or landscaping amenities, including signage, monuments and irrigation systems, over, across and under those portions of the Community shown and designated as “Landscape and Maintenance Easements” on the Plats all as more particularly described in Section 10.9 hereof.

“Lot”: A portion of the Community, whether improved or unimproved, which may be independently owned and conveyed, and upon which a dwelling (single-family or townhome) is intended for development, use, and occupancy. The term shall refer to the land, if any, which is part of the Lot as well as any improvements on the Lot. The boundaries of each Lot shall be shown on a Plat.

“Member”: Each Owner, as described in Section 6.2. There are two membership classes - Class “A” and Class “B”, as described in Section 6.3.

“Mortgage”: A mortgage, a deed of trust, a deed to secure debt, or any other form of security instrument affecting title to any Lot. The term “Mortgagee” shall refer to a beneficiary or holder of a Mortgage.

“Owner”: The title holder to any Lot, but excluding, in all cases, anyone holding an interest merely as security for the performance of an obligation (e.g., a Mortgagee). If a Lot is sold under a recorded contract of sale, and the contract specifically so provides, the purchaser (rather than the fee owner) will be considered the Owner.

“Person”: An individual, a corporation, a partnership, a trustee, or any other legal entity.

“Plat”: Any approved and recorded subdivision plat for Chatsworth, including, without limitation, any approved and recorded subdivision plat for the real property described on Exhibit “A” attached hereto, and any approved and recorded subdivision plat of the Additional Property.

“Preliminary Plan”: That certain Site Plan, prepared by The Isaacs Group, Inc., dated August 25, 2004, entitled “Chatsworth Subdivision,” which Site Plan is incorporated herein by this reference, as such Site Plan may be modified and amended by Declarant from time to time.

“Regular Assessment”: Annual assessments levied to fund Common Expenses for the general benefit of all Lots, as determined in accordance with Section 8.1.

“Special Assessment”: Assessments charged against all Owners in accordance with Section 8.3.

“Supplemental Declaration”: A recorded instrument against all or a portion of the Community, and which, among other things, may subject additional property to this Declaration, identify Common Area and the obligations (including assessments) relating thereto, and/or impose additional restrictions and obligations on the land described.

“Use Restrictions”: The initial use restrictions, rules, and regulations set forth in Exhibit “B” which govern the use of and activities on the Lots and the Common Areas, as they may be changed in accordance with Article III or otherwise amended.

2.2 Interpretation of Certain References.

(a) Recording. All references in the Governing Documents to a “recorded” legal instrument, or to recordation or the recording of a legal instrument, shall refer to an instrument filed, or the filing of a legal instrument in the Office of the Clerk of the Superior Court of Union County, the Office of the Register of Deeds of Union County, or such other place designated as the official location for filing documents affecting title to real estate in Union County in order to make them a matter of public record.

(b) Consent or Approval. All references in the Governing Documents to “consent” or “approval” shall refer to permission or approval which, unless otherwise expressly qualified in the specific provision, may be granted or withheld in the discretion of the Person whose consent or approval is required.

(c) Discretion and Determinations. All references in the Governing Documents to “discretion” or to the right to “determine” any matter shall refer to the sole and absolute power or right to decide or act and, unless otherwise expressly limited in the Governing Documents, a Person entitled to exercise its discretion or make a determination may do so without regard to the reasonableness of, and without the necessity of justifying, the decision, determination, action, or inaction.

ARTICLE III Use and Conduct

3.1 Restrictions on Use, Occupancy and Alienation.

The restrictions set forth in this Section 3.1 may be amended only in accordance with Article XVII.

(a) Residential and Related Uses. Lots shall be used primarily for residential and related purposes. An Owner or another resident of the Lot may conduct business activities on such Lot if the business activity only if the business activity is ancillary to the primary residential use of the Lot and:

- (i) is not apparent or detectable by sight, sound, or smell from outside of a permitted structure;
- (ii) complies with applicable zoning requirements;
- (iii) does not involve regular visitation of the Lot by clients, customers, suppliers, or other business invitees, or door-to-door solicitation within the Community; and
- (iv) is consistent with the residential character of the Community and does not constitute a nuisance, or a hazardous or offensive use, or threaten the security or safety of others within the Community, as determined in the Board's sole discretion.

“Business” shall have its ordinary, generally accepted meaning and shall include, without limitation, any occupation, work, or activity undertaken on an ongoing basis which involves providing goods or services to Persons other than the family of the producer and for which the producer receives a fee, compensation, or other form of consideration, regardless of whether (A) such activity is engaged in full or part time, (B) such activity is intended to or does generate a profit, or (C) a license is required.

This Section shall not apply to restrict Declarant's or Builder's activities, nor shall it restrict the activities of Persons Declarant approves with respect to the development and sale of property in the Community. This Section shall not apply to Association activities related to the provision of services or to operating and maintaining the Community, including the Community's recreational and other amenities.

Leasing a residence is not a “business” within the meaning of this subsection.

(b) Leasing. For purposes of this Declaration, “leasing” is the regular, exclusive occupancy of a dwelling by any Person other than the Owner, for which the Owner receives any consideration or benefit, including a fee, service, or gratuity. The principal dwelling on a Lot be leased only in its entirety (e.g., separate rooms within the same dwelling may not be separately leased); provided, a detached “in-law suite” or “guest house” may be independently leased.

All leases shall be in writing and shall have a term of at least seven months, except with the Board's prior written consent. All leases must require that tenants and occupants of the leased Lot are bound by and obligated to comply with the Governing Documents; provided, the Governing Documents shall apply regardless of whether specifically set forth in the lease. The restrictions on lease terms set forth in this Section shall not apply to Lots Declarant or a Builder owns.

Within ten days of a lease being signed, an Owner shall notify the Board or the Association's managing agent of the lease and provide any additional information the Board may reasonably require. The Owner must give the tenant copies of the Governing Documents. In addition to this sub-section (b), the Board may adopt reasonable Use Restrictions and rules regulating leasing and subleasing.

(c) Occupants Bound. Every Owner shall cause anyone occupying or visiting his or her Lot to comply with the Governing Documents and shall be responsible for all violations and losses they cause to the Common Maintenance Areas, notwithstanding the fact that such Persons also are responsible for complying and may be sanctioned for any violation.

(d) Subdivision of a Lot. Lots may not be subdivided or their boundary lines changed except with the Board's prior written approval; provided, Declarant may subdivide, change the boundary line of, and replat any Lot it owns. In addition, for so long as Declarant owns any portion of the Community, Declarant may convert Lots into Common Area.

3.2 Framework for Regulation.

As part of the general plan of development, the Governing Documents establish a framework of covenants, easements, and restrictions which govern the Community. This includes the initial Use Restrictions set forth in Exhibit "B". Within that framework, the Board and the Members must be able to respond to unforeseen problems and changes affecting the Community. This Article III establishes procedures for modifying and expanding the Use Restrictions to respond to such changes.

The procedures described in this Article are not intended to apply to reasonable rules and regulations relating to use and operation of the Common Area, which the Board may adopt by resolution, or other administrative rules, unless the Board chooses, in its discretion, to submit to such procedures.

3.3 Owners' Acknowledgment and Notice to Purchasers.

Each Owner, by accepting a deed, acknowledges and agrees that the use, enjoyment, and marketability of his or her Lot is limited and affected by the Use Restrictions and Board rules, which may change from time to time. All Lot purchasers are on notice that the Association may have adopted changes to the Use Restrictions and that such changes may not be set forth in a recorded document. Copies of the current Use Restrictions and Board rules may be obtained from the Association.

3.4 Rule Making Authority.

(a) Subject to the terms of this Article and the Board's duty to exercise business judgment and reasonableness on behalf of the Association and the Members, the Board may change (*i.e.*, modify, cancel, limit, create exceptions to, or add to) the Use Restrictions. The Board shall send the Members notice of any proposed change at least ten (10) business days before the Board meeting to consider the change. The Members shall have a reasonable opportunity to be heard at such Board meeting.

The proposed change shall be approved unless disapproved by at least 67% of Class "A" votes, or by the Class "B" Member, if any. The Board is not obligated to call a meeting of the Members to consider disapproval unless it receives a petition which meets the requirements in the By-Laws for special meetings. If the Board receives such a petition before the effective date of the change, the change shall not become effective until after a meeting is held, and then subject to the outcome of the meeting.

(b) Alternatively, Members representing at least 67% of the Class "A" votes, at an Association meeting duly called for such purpose, may vote to change the Use Restrictions then in effect. Any such change shall require approval of the Class "B" Member, if any.

(c) Before any Use Restriction change becomes effective, the Board shall send a copy of the new or changed Use Restriction to each Owner. The change will not become effective until thirty (30) days following distribution to the Owners. The Association shall provide to any requesting Member or Mortgagee, without cost, a copy of the Use Restrictions then in effect.

(d) No action taken under this Article shall have the effect of modifying, repealing, or expanding the Architectural Guidelines or any provision of this Declaration other than the initial Use Restrictions. In the event of a conflict between the Architectural Guidelines and the Use Restrictions, the Architectural Guidelines shall control. In the event of a conflict between the Use Restrictions and any provision within this Declaration (exclusive of the Use Restrictions), the Declaration provision shall control.

3.5 Protection of Owners and Others.

Except as may be set forth in this Declaration (either initially or by amendment) or in the initial Use Restrictions set forth in Exhibit "B," the Association's actions with respect to Use Restrictions and rules must comply with the following:

(a) Similar Treatment. Similarly situated Owners must be treated similarly.

(b) Displays. Owners' rights to display religious and holiday signs, symbols, and decorations on their Lots of the kinds normally displayed in single-family residential neighborhoods shall not be abridged, except that the Association may adopt time, place, and manner restrictions with respect to such displays. Political signs are prohibited.

(c) Household Composition. The Association shall not interfere with any Owner's freedom to determine the composition of his/her household, except that it may enforce reasonable occupancy limits.

(d) Activities Within Dwellings. The Association shall not interfere with activities carried on within a dwelling, except it may prohibit activities not normally associated with residential property, and it may restrict or prohibit activities that create monetary costs for the Association or other Owners that create a danger to anyone's health or safety, that generate excessive noise or traffic, that create unsightly conditions visible outside the dwelling, or that are an unreasonable source of annoyance.

(e) Alienation. The Association shall not prohibit leasing or transfer of any Lot, or require the Association's or the Board's consent prior to leasing or transferring a Lot. The Association may require that Owners use Association-approved lease forms (or include specific lease terms) and may impose a reasonable review or administrative fee on the lease or transfer of any Lot. In addition, among other things, Section 3.1(b) imposes a minimum lease term.

(f) Abridging Existing Rights. The Association may not require an Owner to dispose of personal property that was in or on a Lot prior to the adoption of a rule in compliance with previous rules. This exemption shall apply only during the period of such Owner's ownership of the Lot and shall not apply to subsequent Owners who take title to the Lot after adoption of the rule.

(g) Reasonable Rights to Develop. The Association may not impede Declarant's right to develop Chatsworth.

The limitations in subsections (a) through (f) of this Section shall not apply to amendments to this Declaration adopted in accordance with Article XVII.

ARTICLE IV Architecture and Landscaping

4.1 General

Except for work done by or on behalf of Declarant, no structure or thing shall be placed, erected, or installed upon any Lot, and no improvements or other work (including staking, clearing, excavation, grading and other site work, exterior alterations, or planting or removal of landscaping) shall take place within Chatsworth, except in compliance with this Article and the Architectural Guidelines.

Any Owner may remodel, paint, or redecorate the interior of any structure on his or her Lot without approval. However, modifications to the interior of screened porches, patios, and any other portions of a Lot visible from outside a structure are subject to approval.

Each dwelling shall be designed by and built in accordance with the plans and specifications of a licensed architect acceptable to Declarant, unless Declarant, in its sole discretion, or its designee, otherwise approves.

This Article does not apply to Declarant's activities, or to the Association's activities during the Class "B" Control Period.

4.2 Architectural Review

(a) By Declarant. Declarant shall have exclusive authority to administer and enforce architectural controls and to review and act upon all applications for architectural and other improvements within the Community. Declarant's rights under this Article IV shall continue until all Lots in the Community have been improved with a dwelling for which a certificate of occupancy has been issued, unless Declarant earlier terminates its rights in a recorded instrument. Declarant may designate one or more Persons to act on its behalf in reviewing any

application. In reviewing and acting upon any request for approval, Declarant or its designee acts solely in Declarant's interest and owes no duty to any other Person.

Declarant may from time to time delegate or assign all or any portion of its rights under this Article to any other Person or committee, including the Architectural Review Committee. Any such delegation shall be in writing, shall specify the delegated responsibilities, and shall be subject to (i) Declarant's right to revoke such delegation at any time and reassume its prior jurisdiction, and (ii) Declarant's right to veto any decision which it determines, in its discretion, to be inappropriate or inadvisable for any reason. So long as Declarant has any rights under this Article, the jurisdiction of other entities shall be limited to such matters as Declarant specifically delegates.

(b) Architectural Review Committee. Upon Declarant's delegation or upon expiration or termination of Declarant's rights under this Article, the Association, acting through the ARC, shall assume jurisdiction over architectural matters. When appointed, the ARC shall consist of at least three, but not more than five, persons. Members of the ARC need not be Members of the Association or representatives of Members, and may, but need not, include architects, engineers, or similar professionals, who may be compensated in such manner and amount, if any, as the Board may establish. The ARC members shall serve and may be removed and replaced in the Board's discretion.

Until all Lots in the Community have been improved with a dwelling for which a certificate of occupancy has been issued, the ARC shall notify Declarant of any action to be taken under this Article. During such time, Declarant shall have the right, in its discretion, to veto any action the ARC takes; provided, Declarant's right to veto must be exercised within ten (10) business days after it receives notice of the ARC's action. The party submitting the plans for approval shall not be notified of the ARC's approval or disapproval until after Declarant's right to veto has been exercised or has expired.

Unless and until such time as Declarant delegates any of its reserved rights to the ARC or Declarant's rights under this Article terminate, the Association shall have no jurisdiction over architectural matters.

Declarant and the Association may employ architects, engineers, or other Persons to perform the review required under this article.

(c) Reviewer. For purposes of this Article, the "Reviewer" is the entity having jurisdiction in a particular case.

(d) Fees; Assistance. The Reviewer may establish and charge reasonable fees for its review of applications and may require that such fees be paid in advance. Such fees may include the reasonable costs incurred in having any application reviewed by architects, engineers, or other professionals. The Board may include the compensation of such Persons in the Association's annual operating budget.

4.3 Guidelines and Procedures.

(a) Architectural Guidelines. Declarant may prepare the initial Architectural Guidelines. The Architectural Guidelines are intended to provide guidance to Owners and Builders regarding matters of particular concern to the Reviewer. The Architectural Guidelines are not the exclusive basis for the Reviewer's decisions, and compliance with the Architectural Guidelines does not guarantee an application's approval.

Declarant shall have sole and full authority to amend the Architectural Guidelines as long as it owns any portion of the Community. Declarant's right to amend shall continue even if its reviewing authority is delegated to the ARC, unless Declarant also delegates the power to amend to the ARC. Upon termination or delegation of Declarant's right to amend, the Board may amend the Architectural Guidelines.

Amendments to the Architectural Guidelines shall be prospective only. They shall not require modifications to or removal of structures previously approved once the approved construction or modification has begun. However, any new work on such structures must comply with the Architectural Guidelines, as amended. Subject to the Community-Wide Standard, there is no limit to the scope of amendments to the Architectural Guidelines, and such amendments may remove requirements previously imposed or otherwise make the Architectural Guidelines less restrictive.

The Reviewer shall make the Architectural Guidelines available to Owners and Builders who seek to engage in development or construction within Chatsworth. In Declarant's discretion, the Architectural Guidelines may be recorded, in which event the recorded version, as it may be amended from time to time, shall control in the event of any dispute as to which version of the Architectural Guidelines was in effect at any particular time.

(b) Procedures. Unless the Architectural Guidelines provide otherwise, no construction activities or other activities described in Section 4.1 may begin until a request is submitted to and approved by the Reviewer. The request must be in writing and be accompanied by plans and specifications and other information the Reviewer or the Architectural Guidelines require. Plans and specifications shall show, as applicable, site layout, structural design, exterior elevations, exterior materials and colors, landscaping, drainage, exterior lighting, irrigation, and other features of proposed construction.

In reviewing each submission, the Reviewer may consider any factors it deems relevant, including, without limitation, harmony of the proposed exterior design with surrounding structures and environment. Decisions may be based on purely aesthetic considerations. Each Owner acknowledges that aesthetic determinations are purely subjective and that opinions may vary as to the desirability and/or attractiveness of particular improvements. The Reviewer shall have the sole discretion to make final, conclusive, and binding determinations on matters of aesthetic judgment and any such determination is not subject to the provisions of Article XII nor shall it be subject to judicial review so long as they are made in good faith and in accordance with the required procedures.

The Reviewer shall make a determination on each application after receipt of a completed application and other information it requires. The Reviewer may permit or require that an application be submitted or considered in stages, in which case, a final decision shall not be required until after the final, required submission stage. The Reviewer may (i) approve the application, with or without conditions; (ii) approve a portion of the application and disapprove other portions; or (iii) disapprove the application.

Reviewer approval is not a substitute for any approvals or reviews required by Union County or any other municipality or governmental agency or entity having jurisdiction over architectural or construction matters.

The Reviewer shall notify the applicant in writing of the final determination on any application within thirty (30) days after its receipt of a completed application and all required information. If the Reviewer fails to respond in a timely manner, approval shall be deemed given, subject to Declarant's right to veto pursuant to Section 4.2(a). However, no approval, whether expressly granted or deemed granted, shall be inconsistent with the Architectural Guidelines unless a written variance has been granted pursuant to Section 4.5.

Notice shall be deemed given at the time the envelope containing the response is deposited in U.S. mail. Personal or electronic delivery of such written notice also shall be sufficient and shall be deemed given at the time of confirmed delivery to the applicant.

As part of any approval, the Reviewer may require that construction in accordance with approved plans commence within a specified time period. If construction does not commence within the required period, the approval shall expire and the Owner must reapply for approval before commencing any activities. Once commenced, construction must be diligently pursued to completion. All construction work shall be completed within one year of commencement unless otherwise specified in the notice of approval or the Architectural Guidelines, or unless the Reviewer, in its discretion, grants an extension in writing. If approved work is not completed within the required time, it shall be in violation of this Article and shall be subject to enforcement action by the Association or Declarant.

Declarant or the Board, with Declarant's consent, by resolution, may exempt certain activities from the application and approval requirements of this Article, provided such activities are undertaken in strict compliance with the requirements of such resolution.

4.4 No Waiver of Future Approvals.

Each Owner acknowledges that the people reviewing applications under this Article will change from time to time and that opinions on aesthetic matters, as well as interpretation and application of the Architectural Guidelines, may vary accordingly. In addition, each Owner acknowledges that it may not always be possible to identify objectionable features until work is completed. In such case, the Association may require that the objectionable feature be changed, or, if the Board deems such action to be unreasonable, it may permit the objectionable feature to remain. However, in either case, the Reviewer may refuse to approve similar proposals in the future. Approval of applications or plans, or the decision not to pursue enforcement action, shall not constitute a waiver of the right to withhold approval of similar applications, plans, or other

matters subsequently or additionally submitted for approval, or to pursue enforcement of similar violations in the future.

4.5 Variances.

The Reviewer may authorize variances from compliance with the Architectural Guidelines and any procedures when circumstances such as topography, natural obstructions, hardship, or aesthetic or environmental considerations require, but only in accordance with duly adopted rules and regulations. No variance shall (a) be effective unless in writing; (b) be contrary to this Declaration; or (c) prevent the Reviewer from denying a variance in other circumstances. A variance requires Declarant's written consent during the Development and Sale Period and, thereafter, requires the Board's written consent.

4.6 Limitation of Liability.

This Article establishes standards and procedures as a mechanism for maintaining and enhancing the overall aesthetics of Chatsworth. The standards and procedures do not create any duty to any Person. Review and approval of any application pursuant to this Article may be based on purely aesthetic considerations. The Reviewer is not responsible for the structural integrity or soundness of approved construction or modifications, for compliance with building codes and other governmental requirements, or for ensuring that every dwelling is of comparable quality, value, or size, of similar design, or aesthetically pleasing or otherwise acceptable to other Owners.

Declarant, the Association, its officers, the Board, the ARC, the Association's management agent, any committee, or any member of any of the foregoing shall not be held liable for the approval of, disapproval of, or failure to approve or disapprove any plans; soil conditions, drainage, or other general site work; any defects in plans revised or approved hereunder; any loss or damage arising out of the action, inaction, integrity, financial condition, or quality of work of any contractor or its subcontractors, employees, or agents, whether or not Declarant has approved or featured such contractor as a Builder in the Community; or any injury, damages, or loss arising out of the manner or quality or other circumstances of approved construction on or modifications to any Lot. In all matters, the Association shall defend and indemnify the Board, the ARC, the members of each, committee members, the Association's officers and the Association's management agent as provided in Section 7.6.

4.7 Enforcement.

Any construction, alteration, or other work done in violation of this Article or the Architectural Guidelines is subject to enforcement action. Upon written request from the Association or Declarant, an Owner shall, at his/her own cost and expense, and within a reasonable time frame identified in the request (not to exceed ninety days), cure the violation or restore the Lot to substantially the same condition as existed before the violation occurred. Should an Owner fail to cure the problem or otherwise restore the property as required, the Association, Declarant, or their designees shall have the right to enter the property, remove the violation, and restore the property. All costs, together with interest at the rate the Board

establishes (not to exceed the maximum rate then allowed by law), may be assessed against the Benefitted Lot and collected as a Benefitted Assessment.

Any approvals granted under this Article are conditioned upon completion of all elements of the approved work, unless approval to modify any application has been obtained. In the event that any Person fails to commence and diligently pursue to completion all approved work by the deadline imposed, Declarant or the Association may, after notifying the Owner and allowing an opportunity to be heard in accordance with the By-Laws, enter upon the Lot and remove or complete any incomplete work and assess all costs incurred against the Lot and its Owner as a Benefitted Assessment.

Any act of any contractor, subcontractor, agent, employee, or invitee of an Owner shall be deemed as an act done by or on behalf of such Owner. Any contractor, subcontractor, agent, employee, or other invitee of an Owner who fails to comply with the terms and provisions of this Article and the Architectural Guidelines may be excluded from the Community, subject to the notice and hearing procedures contained in the By-Laws. Declarant, the Association, or the Association's management agent, and their respective officers and directors, shall not be held liable to any Person for exercising the rights granted by this paragraph.

The Association shall be primarily responsible for enforcing this Article. If, however, in Declarant's discretion, the Association fails to take appropriate enforcement action within a reasonable time period, Declarant, during the Development Sale Period, may, but shall not be obligated to, exercise the enforcement rights set forth above. In such event, Declarant may assess and collect Benefitted Assessments against the violating Owner and assert the Association's lien rights pursuant to Article VIII. The Association hereby assigns to Declarant such rights and authority, including the right to all funds collected and no further assignments shall be required.

In addition to the foregoing, the Association and Declarant shall have the authority and standing to pursue all legal and equitable remedies available to enforce the provisions of this Article and the Reviewer's decisions. If the Association or Declarant prevails, they shall be entitled to recover all costs including, without limitation, attorneys' fees and court costs, reasonably incurred in such action. The alternative dispute resolution provisions set out in Article XII shall not apply to actions by Declarant or the Association to enforce the provisions of this Article or the Reviewer's decisions.

ARTICLE V Maintenance and Repair

5.1 Maintenance of Lots.

Unless a Supplemental Declaration assigns such maintenance responsibility to the Association, each Owner shall maintain his or her Lot, including all structures, landscaping, and other improvements comprising the Lot, in a manner consistent with the Governing Documents and the Community-Wide Standard. A Lot Owner's maintenance responsibility shall include such portions of any storm drain easements, as shown on the Plat, which lie within the Lot Boundaries.

Each Owner must maintain the landscaping located in the street right-of-way (public or private) adjacent to his or her Lot unless the Association or Union County assumes all or part of such maintenance responsibility. Each Owner is also responsible for keeping clean and free of debris the curb and gutter and other drainage structures within that portion of a street adjacent to his or her Lot and lying between the Lot's side boundaries, unless the Association or Union County assumes such maintenance responsibility.

5.2 Responsibility for Repair and Replacement.

Unless otherwise specifically provided in the Governing Documents or in other instruments creating and assigning maintenance responsibility; responsibility for maintenance includes responsibility for repair and replacement as necessary to maintain the property to a level consistent with the Community-Wide Standard.

In the event of damage to or destruction of a structure on a Lot, the Owner shall promptly repair or reconstruct the structure in a manner consistent with the original construction or other plans and specifications approved in accordance with Article IV; in any event, such repair or reconstruction shall be completed within two hundred seventy (270) days of the Owner's receipt of insurance proceeds for such purpose. Alternatively, the Owner shall clear the Lot, landscape it in a manner consistent with a landscape plan approved in accordance with Article IV and maintain it in a neat and attractive condition consistent with the Community-Wide Standard. The Owner shall pay any costs insurance proceeds do not cover.

ARTICLE VI The Association and its Members

6.1 Function of Association.

The Association is the entity responsible for management, maintenance, operation, and control of the Common Maintenance Areas. The Association also has primary responsibility for administering and enforcing the Governing Documents. The Association shall perform its functions in accordance with the Governing Documents and North Carolina law. The Board shall be responsible for management of the Association and may contract with a community association manager or management company for such purposes. The Board is appointed or elected as provided in the By-Laws.

6.2 Membership.

Every Owner is a Member of the Association; provided, there is only one membership per Lot. If a Lot is owned by more than one Person, each co-Owner shares the privileges of the membership, subject to reasonable Board regulation and the voting restrictions described in below and in the By-Laws. Co-Owners are jointly and severally obligated to perform the responsibilities of a Member. The membership rights of an Owner which is not an individual (e.g., a corporation) may be exercised by any officer, director, partner, or trustee, or by an individual the Owner designates from time to time in a written instrument provided to the Association's Secretary.

The Association shall have two classes of membership, Class "A" and Class "B". The Class "B" membership terminates upon the earlier of (i) the transfer of title to all Lots planned

for development and sale within Chatsworth to Class A Members other than Builders; or (ii) when, in its discretion, Declarant declares in a recorded instrument.

6.3 Voting.

(a) Class "A". Class "A" Members have one equal vote for each Lot they own, except that there is only one vote per Lot.

In any situation where there is more than one Owner of a Lot, the vote for such Lot shall be exercised as the co-Owners determine among themselves and advise the Secretary of the Association in writing prior to the vote being taken. Absent such advice, the Lot's vote shall be suspended if more than one Person seeks to exercise it.

(b) Class "B". The Class "B" Member shall not vote, but may appoint all of the Board members during the Class "B" Control Period, as specified in the By-Laws, and may exercise the additional rights specified throughout the Governing Documents. Unless Declarant delegates such authority, Declarant shall act as, and on behalf of, the Class "B" Member on all matters. Upon termination of the Class "B" membership, Declarant shall be a Class "A" Member entitled to one Class "A" vote for each Lot it owns.

No vote shall be exercised for any property which is exempt from assessment under Section 8.8.

ARTICLE VII Association Powers and Responsibilities

7.1 Acceptance and Control of Association Property.

(a) The Association may acquire, hold, mortgage or otherwise encumber, lease (as landlord or tenant), operate, and dispose of tangible and intangible personal property and real property, subject to the provisions of Section 13.5, and including, without limitation, the dedication of any real property to applicable governmental authorities. The Association may enter into leases, licenses, or operating agreements, for payment or no payment, as the Board deems appropriate, permitting use of portions of the Common Area by others. However, the Association may not convey or subject to a security interest any portion of the Common Area unless Members representing at least 80% of the Class "A" vote agree in writing.

(b) Declarant or its designees may transfer to the Association, and the Association shall accept, personal property and/or fee title or other property interests in any improved or unimproved real property included within Chatsworth. Upon Declarant's written request, the Association shall transfer back to Declarant any unimproved real property originally conveyed to the Association for no payment, to the extent conveyed by Declarant in error or needed by Declarant to make minor adjustments in property lines.

(c) The Association is responsible for management, operation, and control of the Common Area, subject to any covenants, easements, or restrictions set forth in the deed or other instrument transferring the property to the Association. The Board may adopt such reasonable rules regulating use of the Common Area as it deems appropriate. The Association may enter

into a community association or property management agreement with any Person, including Declarant.

7.2 Maintenance of Common Maintenance Areas.

The Association shall maintain the Common Maintenance Areas (regardless of whether conveyed or dedicated to the Association) in accordance with the Community-Wide Standard. The Common Maintenance Areas shall include, but are not limited to:

- (a) the Common Area, including landscaping, structures, trails, private rights-of-way, components of the Community's stormwater drainage system, and other improvements;
- (b) landscaping within public rights-of-way within or abutting Chatsworth;
- (c) landscape and maintenance easement areas; and
- (d) such portions of any additional property as may be dictated by Declarant, this Declaration, any Supplemental Declaration, any Plat, or any contract, covenant, or agreement for maintenance entered into by, or for the benefit of, the Association.

The Association may maintain other property which it does not own, including property dedicated to the public, if the Board determines that such maintenance is necessary or desirable to maintain the Community-Wide Standard and the property owner consents. In addition, the Association may, in its discretion, but is not obligated to, maintain any ponds, streams and/or wetlands which serve as part of the Community's stormwater drainage system (including associated improvements and equipment) located within the boundaries of a Lot.

The Association shall not be liable for any damage or injury occurring on or arising out of the condition of property which it does not own except to the extent that it has been negligent in performing its maintenance responsibilities.

The Association shall maintain the facilities and equipment within the Common Maintenance Areas in continuous operation, except for any periods necessary, as determined by the Board, to perform required maintenance or repairs, unless Members representing at least 75% of the Class "A" votes in the Association agree in writing to discontinue such operation (which may include closing and/or demolishing such facilities or equipment). Notwithstanding the above, the Common Maintenance Areas may not be reduced, nor shall operation of its facilities and equipment be discontinued, without Declarant's prior written approval during the Development Sale Period.

The costs associated with maintenance, repair, and replacement of the Common Maintenance Areas shall be a Common Expense. However, the Association may seek reimbursement from the owner(s) of, or other Persons responsible for, certain portions of the Common Maintenance Areas pursuant to this Declaration, a Supplemental Declaration, or other recorded covenants or agreements. In addition, Common Expenses shall include each Owner's pro rata share (as determined by separate agreement entered into by the Association) of the actual costs incurred by Declarant, the Association or other maintaining party to maintain, repair

and replace certain drainage facilities located outside of but adjacent to the Community, which drainage facilities accommodate the drainage of surface water from the Community.

Unless Declarant expressly agrees in writing with the Association to pay the costs of maintaining any portion of the Common Maintenance Areas, Declarant shall have no such obligation, regardless of any inferences which may be drawn from promotional or other materials.

7.3 Insurance.

(a) Required Coverages. The Association, acting through its Board or its duly authorized agent, shall obtain and continue in effect the following types of insurance, to the extent reasonably available: (i) blanket property insurance in amounts required under North Carolina Planned Community Act, covering all insurable improvements within the Common Maintenance Areas (including without limitation any trails or pathways) to the extent that the Association has assumed responsibility in the event of a casualty, regardless of ownership; (ii) commercial general liability insurance on the Common Maintenance Areas; (iii) directors and officers liability coverage. In addition, the Association, acting through the Board or its duly authorized agent, may obtain and continue in effect commercial crime insurance, including fidelity insurance covering all Persons responsible for handling Association funds and such additional insurance as the Board, in its business judgment, determines advisable and is reasonably available.

Unless otherwise provided in a Supplemental Declaration, the premium for Common Maintenance Area insurance shall be a Common Expense.

(b) Policy Requirements. The Association may, in the Board's discretion, arrange for periodic reviews of the sufficiency of its insurance coverage by one or more qualified Persons, at least one of whom is familiar with insurable replacement costs in the Union County area. All Association policies shall provide for a certificate of insurance to be furnished to the Association and, upon request, to each Member insured.

The policies may contain a reasonable deductible which shall not be subtracted from the face amount of the policy in determining whether the policy limits satisfy the requirements of Section 7.3(a). In the event of an insured loss, the deductible shall be treated as a Common Expense in the same manner as the premiums for the applicable insurance coverage. However, if the Board reasonably determines, after notice and an opportunity to be heard in accordance with the By-Laws, that the loss is the result of the negligence or willful misconduct of one or more Owners, their guests, invitees, or tenants, then the Board may assess up to the full amount of the loss against such Owner(s) and their Lots as a Benefitted Assessment.

(c) Restoring Damaged Improvements. In the event of damage to or destruction of Common Area or other property which the Association is obligated to insure, the Board or its duly authorized agent shall file and adjust all insurance claims and obtain reliable and detailed estimates of the cost of repairing or restoring the property to substantially the condition in which it existed prior to the damage, allowing for changes or improvements necessitated by changes in applicable building codes.

Damaged improvements on the Common Area shall be repaired or reconstructed unless Members representing at least 80% of the total Class "A" votes in the Association and the Class "B" Member, if any, decide within sixty days after the loss not to repair or reconstruct. If either the insurance proceeds or estimates of the loss, or both, are not available to the Association within such 60-day period, then the period may be extended until such funds or information are available. No Mortgagees shall have the right to participate in the determination of whether the damage or destruction to the Common Area shall be repaired or reconstructed.

If a decision is made not to restore the damaged improvements, and no alternative improvements are authorized, the affected property shall be cleared of all debris and ruins and thereafter shall be landscaped and maintained by the Association in a neat and attractive condition consistent with the Community-Wide Standard.

The Association shall retain in a reserve fund for capital items any insurance proceeds remaining after paying the costs of repair or reconstruction, or after an agreed-upon settlement, for the benefit of the Members. This is a covenant for the benefit of Mortgagees and may be enforced by the Mortgagee of any affected Lot.

If insurance proceeds and reserves are insufficient to cover the costs of repair or reconstruction, the cost of repair or replacement shall be a Common Expense, pursuant to N.C.G.S. 47F-3-113(g) and the Association may, without a vote of the Members, levy Special Assessments to cover the shortfall.

7.4 Compliance and Enforcement.

(a) The Board may impose sanctions for Governing Document violations, which sanctions include those listed below and any others described elsewhere in the Governing Documents. The Board may establish a range of penalties for different violations, with violations of the Declaration, unsafe conduct, and harassment or intentionally malicious conduct treated more severely than other violations. The following sanctions require prior notice and an opportunity for a hearing in accordance with the By-Laws (provided only a single notice and hearing is required for continuing violations):

- (i) imposing reasonable monetary fines, not to exceed \$150.00 per violation (or per day in the case of a continuing violation), which shall constitute a lien upon the violator's Lot (fines may be imposed within a graduated range). There is no limit on the aggregate amount of any fine for a continuing violation;
- (ii) suspending an Owner's right to vote;
- (iii) suspending any Person's right to use Common Area amenities; provided, nothing shall authorize the Board to impair an Owner or occupant's access to his or her Lot;
- (iv) suspending any services provided by the Association;

- (v) exercising self-help or taking action to abate any violation of the Governing Documents occurring on a Lot in a non-emergency situation (including removing personal property that violates the Governing Documents); and
- (vi) levying Benefitted Assessments to cover costs incurred by the Association to bring a Lot into compliance with the Governing Documents.

In addition, the Board may take the following enforcement actions to ensure compliance with the Governing Documents without the necessity of compliance with the procedures set forth in the By-Laws:

- (vii) exercising self-help or taking action to abate a violation on a Lot in an emergency situation (including towing vehicles that are in violation of parking rules and regulations);
- (viii) exercising self-help or taking action to abate a violation on the Common Area under any circumstances; or
- (ix) bringing suit at law for monetary damages or in equity to stop or prevent any violation, or both.

In addition to any other enforcement rights, if an Owner fails properly to perform his or her maintenance responsibility, the Association may record a notice of violation or perform the required maintenance and assess its costs against the Lot and the Owner as a Benefitted Assessment. Except in an emergency situation, the Association shall provide the Owner reasonable notice and an opportunity to cure the problem prior to taking such enforcement action.

Moreover, if an Owner is legally responsible for damage inflicted on any Common Area, the Association may direct such Owner to repair such damage or the Association may make the repairs and recover damages from the responsible Owner. If the damages are less than or equal to the jurisdictional amount established for small claims under N.C.G.S. 7A-210, the Owner may request a hearing before the Board or an adjudicatory panel the Board appoints pursuant to N.C.G.S. 47F-3107.

The above sanctions shall not apply to Declarant or to any Lot owned by Declarant. All sanctions and remedies set forth in the Governing Documents are in addition to any remedies available at law or in equity. In any action to enforce the Governing Documents, the prevailing party may recover all of its costs incurred in the action, including, without limitation, court costs and reasonable attorneys' fees.

(b) The decision to pursue enforcement action in any particular case shall be left to the Board's discretion, except that the Board shall not be arbitrary or capricious in taking enforcement action. Without limiting the generality of the foregoing sentence, the Board may determine that, under the circumstances of a particular case:

- (i) the Association's position is not strong enough to justify taking any or further action;
- (ii) the covenant, restriction, or rule being enforced is, or is likely to be construed as, inconsistent with applicable law;
- (iii) although a technical violation may exist or may have occurred, it is not of such a material nature as to be objectionable to a reasonable person or to justify expending the Association's resources; or
- (iv) that it is not in the Association's best interests, based upon hardship, expense, or other reasonable criteria, to pursue enforcement action.

A decision not to enforce a particular provision shall not prevent the Association from enforcing the same provision at a later time or prevent the enforcement of any other covenant, restriction, or rule.

By contract or other agreement, the Association may enforce applicable county ordinances. In addition, Union County may enforce its ordinances within Chatsworth.

7.5 Implied Rights; Board Authority.

The Association may exercise any right or privilege given to it expressly or by reasonable implication by the Governing Documents, and may take action reasonably necessary to effectuate any such right or privilege. Except as otherwise specifically provided in the Governing Documents or by law, all of the Association's rights and powers may be exercised by the Board without a vote of the membership.

The Board may institute, defend, settle, or intervene on the Association's behalf in mediation, binding or non-binding arbitration, litigation, or administrative proceedings in matters pertaining to the Common Maintenance Areas, enforcement of the Governing Documents, or any other civil claim or action. However, the Board has no legal duty to institute arbitration, litigation or other administrative proceedings on behalf of or in the name of the Association or the Members. In exercising the Association's rights and powers, making decisions on the Association's behalf, including, without limitation, deciding whether to file a lawsuit under any circumstances, and conducting the Association's affairs, Board members and the Association's officers are subject to, and their actions shall be judged in accordance with, the standards set forth in the By-Laws.

7.6 Indemnification of Officers, Directors, and Others.

The officers, directors, and committee members, acting in such capacity, and the Association's management agent, shall not be liable for any mistake of judgment, negligent or otherwise, except for their own individual willful misfeasance, malfeasance, misconduct, or bad faith. The officers, directors and committee members, and the Association's management agent, shall have no personal liability for any contract or other commitment made or action taken in good faith on the Association's behalf.

Subject to North Carolina law, the Association shall indemnify every officer, director, and committee member, and the Association's management agent, against all damages and expenses, including counsel fees, reasonably incurred in connection with any action, suit, or other proceeding (including settlement of any suit or proceeding, if approved by the then Board of Directors) to which he or she may be a party by reason of being or having been an officer, director, committee member or management agent, except that such obligation to indemnify shall be limited to those actions for which liability is limited under this Section.

This right to indemnification shall not be exclusive of any other rights which any present or former officer, director, committee member or management agent may have. The Association shall, as a Common Expense, maintain adequate general liability and officers' and directors' liability insurance to fund this obligation, if such insurance is reasonably available.

7.7 Provision of Services.

The Association may provide, or provide for, services and facilities for all or any of the Members and their Lots, and may enter into contracts or agreements with other entities, including Declarant, to provide such services and facilities. Any contracts entered into by the Association shall provide for the unilateral right to terminate such contracts with or without cause upon thirty days written notice. The Board may charge use or service fees for any such services and facilities, or may include the costs in the Association's budget as a Common Expense and assess it as part of the Regular Assessment, if provided to all Lots. By way of example, such services and facilities might include landscape maintenance, pest control service, cable television service, telephone, internet access, security monitoring, caretaker, transportation, fire protection, utilities, trash collection and recycling, and similar services and facilities.

Nothing in this Section shall be construed as a representation by Declarant or the Association as to what, if any, services shall be provided. In addition, subject to the contract terms, the Board may modify or cancel existing contracts for services in its discretion, unless the services are otherwise required by the Governing Documents. Non-use of services provided to all Owners or Lots as a Common Expense shall not exempt any Owner from the obligation to pay assessments for such services.

7.8 Relationships with Other Properties.

The Association may enter into contractual agreements or covenants to share costs with any neighboring properties to contribute funds for, among other things, shared or mutually beneficial property or services and/or a higher level of Common Area maintenance.

7.9 Bulk Rate Service Agreements.

The Association may enter into contracts, including bulk rate service agreements, with providers of Community Systems components and other utilities and with other Persons for the maintenance, management, administration, upgrading, modification and operation of the Systems and utilities. The Association's expenses in connection with any such bulk rate contracts shall be a Common Expense to be included in the Regular Assessment; provided, if particular or additional services or benefits are provided to particular Lots, the Benefitted Owner(s) shall pay

the service provider directly for such services, or the Association may assess the costs as a Benefitted Assessment.

The terms of any Association contract for Community Systems or other utilities may obligate individual Owners or occupants to execute subscription agreements or other contracts directly with the Persons providing components or services prior to gaining access to the System or utility, or in the alternative, the Association may execute a subscription agreement or contract on behalf of all Owners. Such subscription agreements or other contracts may contain terms and conditions relating to use and access to the Community Systems or utility which, if violated by the Owner or occupant of a Lot, may result in services to such Owner's or occupant's Lot being terminated by the System or utility provider or by the Association. The termination of service for such a violation shall not relieve the Owner of the continuing obligation to pay that portion of assessments or other Association charges pertaining to the Community Systems or common utilities.

The Association shall have no obligation to utilize any particular provider or providers; provided, except for cause (as defined under a written agreement with the provider), the Association may not, without Declarant's consent, terminate or refuse to renew any contract entered into during the Class "B" Control Period.

7.10 Relationship with Governmental and Non-Profit Organizations.

The Association may enter into agreements or contracts with, or grant exclusive and/or non-exclusive easements over the Common Area to, state or local governments, public utility providers, and non-profit organizations for the benefit of the Community, the Association, and the Members. The Association may contribute money, real property (including Common Area), personal property, or services to any such entity. Any such contribution shall be a Common Expense and included as a line item in the Association's annual budget.

ARTICLE VIII Association Finances

8.1 Budgeting and Allocating Common Expenses.

The Association is authorized to levy Regular Assessments against all Lots subject to assessment under and in accordance with the allocations set forth in Section 8.5 to fund the Common Expenses. Before the beginning of each fiscal year, the Board shall prepare a budget of the estimated Common Expenses for the coming year, including any contributions to be made to a reserve fund pursuant to Section 8.2. The budget shall reflect the sources and estimated amounts of funds to cover such expenses, including any prior year's surplus or deficit, any non-assessment income, and anticipated assessment income.

In determining the Regular Assessment, the Board may consider any assessment income expected to be generated from any property reasonably anticipated to become subject to assessment during the fiscal year.

All Owners within the Community shall have the right to use the Common Area. All Owners, by acceptance of a deed or other conveyance therefor, are deemed to covenant and

agree that a portion of the Regular Assessment shall include the costs of the improvement, use, operation, repair, replacement and maintenance of the Common Area.

The budget is subject to ratification by the Owners at a meeting. The Board shall send a summary of the proposed budget and notice of the meeting to consider ratification of the budget not less than ten nor more than sixty days prior to the date of the meeting. A quorum need not be present at the meeting and the notice to Owners shall include a statement that the budget may be ratified without a quorum being present. The budget shall be ratified unless, at such meeting, the Members representing a majority of the total Class "A" votes, and the Class "B" Member, disapprove the budget.

Declarant may, but shall not be obligated to, reduce the Regular Assessment for any fiscal year by payment of a subsidy (in addition to any amounts paid by Declarant under Section 8.6(b)) which may be either a contribution, an advance against future assessments due from Declarant, or a loan, in Declarant's discretion. Any such subsidy shall be disclosed as a line item in the income portion of the budget. The payment of such subsidy in any year shall not obligate Declarant to continue paying a subsidy in future years, unless otherwise provided in a written agreement between the Association and Declarant.

If any proposed budget is disapproved, or the Board fails for any reason to determine the budget for any year, then the budget most recently in effect shall continue in effect until a new budget is determined.

The Board may revise the budget and adjust the Regular Assessment from time to time during the year, subject to the notice requirements set forth above and in North Carolina law.

8.2 Budgeting for Reserves.

The Board may, in its discretion and as it deems appropriate, include in the Common Expense budget a capital contribution to fund reserves which address, in whole or in part, the projected need with respect both to amount and timing by annual contributions over the budget period. Reserve budgets shall take into account the number and nature of replaceable assets, the expected life of each asset, and the expected repair or replacement cost. So long as the Board exercises business judgment in determining the amount or necessity of the reserve fund, the amount shall be considered adequate.

The Board may adopt resolutions regarding the expenditure of any reserve funds, including policies designating the nature of assets for which reserve funds may be expended. During the Development and Sale Period, neither the Association nor the Board shall adopt, modify, limit, or expand such policies without Declarant's prior written consent.

The Board has no duty to fund reserves during any period that Declarant is funding Association budget deficits.

8.3 Special Assessments.

In addition to other authorized assessments, the Association may levy Special Assessments against the entire membership to cover unbudgeted expenses or expenses in excess

of those budgeted. Except as otherwise specifically provided in this Declaration, any Special Assessment shall require the affirmative vote or written consent of Members representing at least a majority of the total Class "A" votes in the Association, and the affirmative vote or written consent of the Class "B" Member, if any. Special Assessments shall be payable in such manner and at such times as determined by the Board, and may be payable in installments extending beyond the fiscal year in which the Special Assessment is approved.

8.4 Benefitted Assessments.

The Association may levy Benefitted Assessments against one or more particular Lots as follows:

(a) to cover the costs, including overhead and administrative costs, of providing services to Lots pursuant to this Declaration, upon request of an Owner pursuant to any menu of special services which the Association may offer (which might include the items identified in Section 7.7) or pursuant to a Supplemental Declaration. Benefitted Assessments for special services may be levied in advance of the provision of the requested service; and

(b) to cover costs incurred in bringing a Lot into compliance with the Governing Documents, or costs incurred as a consequence of the conduct of the Owner or occupants of the Lot, their agents, contractors, employees, licensees, invitees, or guests; provided, the Board shall give the Lot Owner prior written notice and an opportunity for a hearing, in accordance with the By-Laws, before levying any Benefitted Assessment under this subsection.

Benefitted Assessments may be levied (i) equally against each Lot receiving the same service; (ii) in accordance with the benefit received; or (iii) in such other reasonable manner as provided in a Supplemental Declaration or as the Board deems appropriate, in its discretion.

8.5 Commencement of Assessment Obligation: Time of Payment.

The obligation to pay assessments commences as to each Lot on the first day of the month following the month in which the Lot is made subject to this Declaration by the recordation of a plat depicting the Lot and shall not exceed a maximum initial annual assessment of \$500.00 per Lot. Regular and Special Assessments shall be levied equally against all Lots subject to such assessments. The first annual Regular Assessment levied on each Lot shall be adjusted according to the number of months remaining in the fiscal year at the time assessments commence on the Lot.

Owners shall pay assessments in the manner and on the dates the Board establishes. The Board may require advance payment of assessments at closing of the transfer of title to a Lot and may impose special requirements for Owners with a history of delinquent payment. If the Board so elects, assessments may be paid in quarterly or monthly installments. Unless the Board otherwise provides, the Regular Assessment shall be due and payable in advance on the first day of each fiscal year. If any Owner is delinquent in paying any assessments or other charges levied on his Lot, the Board may require that the outstanding balance on all assessments be paid in full immediately.

8.6 Obligation for Assessments.

(a) Personal Obligation. Each Owner, by accepting a deed or entering into a recorded contract of sale for any Lot, covenants and agrees to pay all assessments authorized in the Governing Documents for each Lot owned. All assessments, together with interest (computed from the assessment's due date at a rate of 18% per annum), late charges as determined by Board resolution, costs, and reasonable attorneys' fees, shall be the personal obligation of each Owner and a lien upon each Lot until paid in full. Upon a transfer of title to a Lot, the grantee shall be jointly and severally liable for any assessments and other charges due at the time of conveyance.

The Board's failure to fix assessment amounts or rates or to deliver or mail each Owner an assessment notice shall not be deemed a waiver, modification, or a release of any Owner from the obligation to pay assessments. In such event, each Owner shall continue to pay Regular Assessments on the same basis as during the last year for which an assessment was made, if any, until a new assessment is levied, at which time the Association may retroactively assess any shortfalls in collections.

No Owner is exempt from liability for assessments by non-use of Common Area, abandonment of his or her Lot, or any other means. The obligation to pay assessments is a separate and independent covenant by each Owner. No reduction or abatement of assessments or set-off shall be claimed or allowed for any failure, alleged or otherwise, of the Association or Board to take some action or perform some required function, or for inconvenience or discomfort arising from making repairs or improvements, or for any other reason.

Upon written request, the Association shall furnish to any Owner liable for any type of assessment a certificate in writing signed by an Association officer setting forth whether such assessment has been paid. Such certificate shall be conclusive evidence of payment. The Association may require the advance payment of a reasonable processing fee for the issuance of such certificate.

(b) Declarant's Option to Fund Budget Deficits. To the extent permitted by North Carolina law, during the Class "B" Control Period, Declarant may satisfy the obligation for assessments on Lots which it owns either by paying assessments in the same manner as any other Owner or by funding the budget deficit. The budget deficit is the difference between the amount of assessments levied on Class "A" Member-owned Lots, plus any other income received during the fiscal year, and the amount of the Association's actual expenditures during the fiscal year, excluding reserve contributions. Unless Declarant otherwise notifies the Board in writing at least thirty days before the beginning of the fiscal year, Declarant shall continue paying on the same basis as during the previous fiscal year.

In the event Declarant elects to pay assessments in the same manner as any other Owner, and a deficit results, the Association, and not Declarant, shall be responsible for such deficit and its funding.

Regardless of Declarant's election, Declarant's assessment obligations maybe satisfied in the form of cash or by "in kind" contributions of services or materials, or by a combination of these. After termination of the Class "B" Control Period, except with respect to Benefitted Assessments, Declarant shall pay assessments on Lots which it owns in the same manner as any other Owner.

8.7 Lien for Assessments.

The Association may record a lien against any Lot, including Declarant's Lots, to secure payment of assessments that remain unpaid for a period of thirty days or longer after becoming due. For purposes of this Section, assessments shall include interest, late charges (subject to North Carolina law), and costs of collection (including attorneys' fees). Such lien shall be superior to all other liens, except (a) the liens of all real estate taxes and other governmental assessments and charges against the Lot, (b) the lien or charge of any recorded first Mortgage (meaning any recorded Mortgage with first priority over other Mortgages) made in good faith and for value, (c) other recorded liens or encumbrances which by law would be superior and (d) to the extent North Carolina law permits, the "Capital Improvement Lien" described below.

Notwithstanding the above, and subject to North Carolina law, any charges levied solely for the purpose of acquisition, development, or construction of infrastructure or other capital improvements serving the Community (or to pay the cost to underwrite, service and repay any debt incurred to finance any such acquisition, development or construction) may be designated by the Board as a "Capital Improvement Assessment". To the extent North Carolina law permits, with respect to unpaid Capital Improvement Assessments, the Association may record a lien ("Capital Improvement Lien") which, regardless of the recording date, shall be superior to (a) the Association's lien for other Common Expenses and (b) all other liens except those deemed superior under North Carolina law and which may not be made subordinate by this provision.

An Association lien under this Section may be enforced by suit, judgment, and judicial or non-judicial foreclosure. To the extent required under N.C.G.S. 47F-3-116(c), an Association lien for delinquent assessments automatically terminates after three years from the lien's recordation, unless proceedings to enforce the lien are instituted within such time.

At a foreclosure sale, the Association may bid for the Lot and acquire, hold, lease, mortgage, and convey the Lot. The Association may sue for unpaid assessments and other charges without foreclosing or waiving its assessment lien.

Sale or transfer of any Lot shall not affect the assessment lien or relieve such Lot from the lien for any subsequent assessments. However, the sale or transfer of any Lot pursuant to foreclosure by the first Mortgagee extinguishes the lien relating to any amounts due prior to the Mortgagee's foreclosure. The purchaser of a foreclosed Lot shall not be personally liable for assessments on such Lot due prior to the foreclosure sale. Such unpaid assessments shall be a Common Expense collectible from Owners of all Lots subject to assessment under Section 8.6, including such purchaser, its successors and assigns.

Notwithstanding the above, while the Association owns a Lot: (a) no right to vote shall be exercised on its behalf; (b) no assessment shall be levied on it; and (c) each other Lot shall be charged, in addition to its usual assessment, its pro rata share of the assessment that would have been charged such Lot had it not been acquired by the Association.

8.8 Exempt Property.

The following property shall be exempt from payment of Regular Assessments, and Special Assessments:

- (a) All Common Area and other portions of the Community which are not Lots; and
- (b) Any property dedicated to and accepted by any governmental authority or public utility.

In addition, both Declarant and the Association shall have the right, but not the obligation, to grant exemptions to schools, houses of worship, hospitals, or Lots owned by and used by Persons qualifying for tax exempt status under Section 501(c) of the Internal Revenue Code. Exemptions granted by Declarant shall be binding on the Association.

8.9 Use and Consumption Fees: Licenses and Royalties.

The Board may charge use and consumption fees to any Person using Association services or facilities and may determine the amount and method of determining such fees. Different fees may be charged to different classes of users (e.g., Owners and non-Owners).

The Association may enter into license agreements with Declarant or other parties which permit the Association's use of trade names or service marks (e.g., use of the name Chatsworth). To the extent permitted by such license agreements, the Board may enter into sub-license agreements, under negotiated terms, which permit others within the Community to use such trade names and/or service marks. The Association may charge fees and collect royalties in connection with such sub-license agreements; provided, Declarant shall be exempt from payment of such license fees.

ARTICLE IX Additional Rights Reserved to Declarant

9.1 Annexation by Declarant.

Declarant may annex, from time to time, subject to this Declaration any adjacent or contiguous real property, including but not limited to the property described on Exhibit "D", by a recorded Supplemental Declaration which describes the property being subjected; provided, any such annexation shall be consistent with the common scheme of development established for Chatsworth. A Supplemental Declaration recorded pursuant to this Section shall not require the consent of any Person except the owner of such property, if other than Declarant.

Declarant's right to annex property pursuant to this Section shall expire upon termination of the Class "B" membership. Nothing in this Declaration shall require Declarant or any successor to subject additional property to this Declaration or to develop any property other than that described in Exhibit "A" in any manner whatsoever.

9.2 Withdrawal of Property

During the Development and Sale Period, Declarant reserves the right to amend this Declaration to remove any unimproved portion of Chatsworth from the coverage of this Declaration. "Unimproved" means that no structure has yet been built on the property. Such

amendment shall not require the consent of any Person other than the Owner(s) of the property to be withdrawn, if not the Declarant. Except as provided in Section 7.1(b), if the property is Common Area, the Association's consent is required for such withdrawal.

9.3 Marketing and Sales Activities.

Notwithstanding anything in the Governing Documents to the contrary, Declarant, and its designees, and Builders may construct and maintain upon portions of the Common Area and other property they own, such facilities, activities, and things as, in Declarant's opinion, may reasonably be required, convenient, or incidental to the construction or sale of Lots. Such permitted facilities, activities, and things shall include sales trailer on site, business offices, signs, flags (whether hung from flag poles or attached to a structure), model homes, sales offices, holding or sponsoring special events, and exterior lighting features or displays. In addition, if reasonably required, convenient, or incidental to construction or sales activities, Declarant and its designees may park vehicles in areas other than garages or driveways, including on streets. Builder's rights under this Section are subject to Declarant's approval.

9.4 Right to Develop.

Declarant and its respective employees, agents, and designees shall have a right of access and use and an easement over and upon all of the Common Area for the purpose of making, constructing, and installing such improvements to the Common Area, and to other portions of Chatsworth, as it deems appropriate in its sole discretion.

Each Owner acknowledges that Chatsworth is a master planned community, the development of which is likely to extend over many years, and agrees and consents to all changes in (a) uses or density of Lots or dwellings within Chatsworth, or (b) the Plats(s) and development plans, provided such changes are consistent with the scheme of development established for Chatsworth.

Each Owner acknowledges and agrees that the Plat(s) may be amended and that the present plans and themes for Chatsworth's development may change and that he or she has not relied on any representation, warranty, or assurance by any Person (a) that any Lots, or other property or facilities will be added, modified, or eliminated within Chatsworth; or (b) as to the financial or other impact of such action on any Owner. Each Owner acknowledges and agrees that he or she is not entitled to rely upon and has not received or relied upon any representations, warranties, or guarantees whatsoever as to: (a) the design, construction, completion, development, use, benefits, or value of Chatsworth; or (b) the number, types, sizes, prices, or designs of any residential or nonresidential structures or improvements built or to be built in any part of Chatsworth.

9.5 Right to Approve Changes in Chatsworth's Standards.

No amendment to or modification of any Use Restrictions, rules, or the Architectural Guidelines shall be effective without prior notice to and the written approval of Declarant.

9.6 Right to Transfer or Assign Declarant Rights.

Any or all of Declarant's special rights and obligations set forth in this Declaration or the By-Laws may be transferred in whole or in part to other Persons; provided, the transfer shall not reduce an obligation nor enlarge a right beyond that which Declarant has under this Declaration or the By-Laws. No such transfer or assignment shall be effective unless it is in a recorded instrument signed by Declarant. However, Declarant may allow other Persons to exercise on a one-time or limited basis, any Declarant right without transferring the entire right. In such case, a recorded instrument is not required.

9.7 Community Systems

Declarant reserves for itself, its successors and assignees, a perpetual right and easement to operate within Chatsworth such Community Systems as Declarant, in its discretion, deems appropriate to service the buildings and the structures within any Lot or other portion of the Community. Such rights shall include, without limitation, Declarant's right to select and contract with companies licensed to provide telecommunications, cable television, and other Community Systems services in the region, and to charge individual users a reasonable fee not to exceed the maximum allowable charge for such service, as from time to time is defined by the laws, rules, and regulations of the relevant government authority, if applicable.

9.8 Rights To Use Names: License Agreements.

The name "Chatsworth" and all similar or derivative names, along with all logos associated therewith, are proprietary trade names and service marks. No Person shall use such trade names or service marks for advertising or any other purpose in any promotional material, whether printed, audio, video, or otherwise, in any signage, or in any logo or depiction without the prior written consent of the Person who owns such mark. In addition, due to the integrated nature of Chatsworth as a planned community, and the public identification of the Lots with Chatsworth, any name or "logo" to be used in connection with or displayed on any Lot, and any sales or other materials or documentation related to the use of the Lot, shall be subject to Declarant's prior written consent. Such approval may be given or withheld in Declarant's discretion and may be subject to such terms and conditions as Declarant deems appropriate.

Notwithstanding the above, Owners may use the name "Chatsworth" where such term is used solely to specify that particular property is located within Chatsworth (subject, however, to such terms and conditions as Declarant may impose in order to protect its registered trade names and service marks) and the Association may use the word "Chatsworth" in its name. Other use by the Association or any Owner is subject to the restrictions set out in the Section or otherwise imposed by Declarant.

9.9 Easement to Inspect and Right to Correct.

Declarant reserves for itself and others it may designate the right, but not the obligation, to inspect, monitor, test, redesign, and correct any structure, improvement, or condition which may exist on any portion of Chatsworth, including Lots, and a nonexclusive easement of access throughout the Community to the extent reasonably necessary to exercise such right.

Except in an emergency, entry onto a Lot shall be only after reasonable notice to the Owner and no entry into a dwelling or other structure on a Lot shall be permitted without the

Owner's consent, which consent shall not unreasonably be withheld, conditioned, or delayed. The failure or refusal to permit reasonable access to the Lot for the purposes contemplated under this paragraph shall excuse Declarant or its designee from responsibility for repairs or damages relating to defective workmanship or materials. The Person exercising this easement shall promptly repair, and pay for, any resulting damage.

9.10 Right to Notice of Design or Construction Claims.

No Person shall retain an expert for the purpose of inspecting the design or construction of any structures or improvements within Chatsworth in connection with or in anticipation of any potential or pending claim, demand, or litigation involving such design or construction unless Declarant and Builder involved with the design or construction have first been notified in writing and given an opportunity to meet with the property Owner and conduct an inspection.

9.11 Termination of Rights.

Rights granted under this Article shall terminate upon the earlier of (a) the period specified in the particular Section; (b) twenty years from the date this Declaration is recorded; or (c) Declarant's recording of a statement that all sales activity has ceased. Thereafter, Declarant may continue to use the Common Areas for the purposes stated in this Article only pursuant to a rental or lease agreement between Declarant and the Association which provides for rental payments based on the fair market rental value of any such portion of the Common Areas. Notwithstanding the above, Declarant reserves for itself a perpetual, non-exclusive easement of access to and use of the Common Areas in connection with the marketing and sale of other properties in order to show the Community as an example of Declarant's projects. This Article shall not be amended without Declarant's written consent.

9.12 Exclusion of Declarant's other Properties.

By accepting a deed to a Lot, each Owner specifically acknowledges that nothing contained in this Declaration shall in any way, either expressly or by implication, restrict, limit, or otherwise affect the use or disposition by Declarant of any property either of them owns, whether contained within or contiguous to Chatsworth. Declarant shall have full, free, and unrestricted use of its other lands, notwithstanding any incompatibility of such use with restrictions this Declaration imposes upon the Lots. By accepting a deed to a Lot, each Owner specifically and expressly disclaims any reciprocal negative easement in any property Declarant owns.

ARTICLE X Easements

10.1 Easements in Common Area.

Declarant grants to each Owner a right and easement of use, access, and enjoyment in and to the Common Area, subject to:

- (a) The Governing Documents and any other applicable covenants;

(b) Any restrictions or limitations contained in any deed conveying the property to the Association; and

(c) The Board's right to:

- (i) adopt rules regulating Common Area use, including rules limiting the number of guests who may use the Common Area, and charge use fees for such use;
- (ii) dedicate or transfer all or any part of the Common Area, subject to any approval requirements set forth in this Declaration; and
- (iii) mortgage, pledge, or hypothecate any or all of the Common Area as security for money borrowed or debts incurred subject to the approval requirements set forth in Section 13.5.

Any Owner may extend his or her right to use the Common Area to the members of his or her family, tenants, and social invitees, as applicable, subject to reasonable Board regulation. An Owner who leases his or her Lot shall be deemed to have assigned all such rights to the tenants of such Lot for the lease term.

10.2 Easements of Encroachment.

Declarant grants easements of encroachment, and for maintenance and use of any permitted encroachment, between each Lot and any adjacent Common Area and between adjacent Lots. A permitted encroachment is a structure or fixture which extends unintentionally onto another's property, a distance of less than one foot, as measured from any point on the common boundary along a line perpendicular to such boundary. An encroachment easement shall not exist if the encroachment results from willful and knowing conduct on the part of, or with the knowledge and consent of, the Person claiming the benefit of such easement.

10.3 Easements for Utilities, Etc.

(a) Installation and Maintenance. Declarant reserves for itself, during the Development Sale Period, and grants to the Association and utility providers, perpetual, non-exclusive easements throughout Chatsworth (but not through a structure) to the extent reasonably necessary to:

- (i) install utilities and infrastructure to serve Chatsworth, cable and other systems for sending and receiving data and/or other electronic signals, other Community Systems, drainage systems, and security and similar systems;
- (ii) install walkways, pathways and trails, street lights, and signage on property which Declarant or the Association owns or within public rights-of-way or easements reserved for such purpose on a Plat;

- (iii) inspect, maintain, repair, and replace the utilities, infrastructure, and other improvements described above; and
- (iv) access and read utility meters.

Notwithstanding the above, Declarant reserves the right to deny access to any utility or service provider, to the extent permitted by law, or to condition such access on negotiated terms.

(b) Specific Easements. Declarant also reserves for itself the non-exclusive right and power to grant and record such specific easements as may be necessary, in Declarant's sole discretion, to develop Chatsworth. The location of the easement shall be subject to the written approval of the burdened property Owner, which approval shall not unreasonably be withheld, delayed, or conditioned.

(c) Minimal Interference. All work associated with the exercise of the easements described in subsections (a) and (b) of this Section shall be performed in such a manner as to minimize interference with the use and enjoyment of the property burdened by the easement. Upon completion of the work, the Person exercising the easement shall restore the property, to the extent reasonably possible, to the condition existing prior to the work. The exercise of these easements shall not extend to permitting entry into the structures on any Lot, nor shall it unreasonably interfere with the use of any Lot and, except in an emergency, entry onto any Lot shall be made only after reasonable notice to the Owner or occupant.

10.4 Easements for Maintenance, Emergency, and Enforcement.

Declarant grants to the Association easements over Chatsworth (including Lots) as necessary for the Association to fulfill its maintenance responsibilities under Section 7.2. The Association shall also have the right, but not the obligation, to enter upon any Lot for emergency, security, and safety reasons, to abate a Governing Document violation, to perform maintenance and to inspect for the purpose of ensuring compliance with and enforcing the Governing Documents. Any member of the Board, and its duly authorized agents and assignees, including committee members, and all emergency personnel in the performance of their duties may exercise such right. Except in an emergency situation, entry shall only be during reasonable hours and after notice to the Owner.

10.5 Easements for Cross-Drainage.

All portions of the Community shall be burdened with easements for natural drainage of stormwater runoff from other portions of the Community; provided, no Person shall alter the natural drainage on any Lot to increase materially the drainage of stormwater onto adjacent portions of the Community without the consent of the Owner(s) of the affected property and the Board. In addition, during the Development and Sale Period, Declarant's consent is required.

10.6 Rights to Stormwater Runoff and Water Reclamation.

Declarant reserves for itself and its designees all rights to ground water, surface water, and stormwater runoff located or produced within the Community, and each Owner agrees, by acceptance of a deed to a Lot, that Declarant shall retain all such rights. Such rights shall include

the reservation of an easement over the Community for access, and for installation and maintenance of facilities and equipment to capture and transport such water and runoff. This Section may not be amended without Declarant's consent, and the rights created in this Section shall survive termination of this Declaration.

10.7 Entrance Monument Easement. Declarant hereby reserves, for the benefit of itself, its successors in interest and assigns, and grants to the Association, its successors and assigns, nonexclusive perpetual easements for the purposes of landscaping and maintaining entryways and erecting and maintaining entrance monument(s) for the Community over, across and under those portions of the Community shown and designated as "**Entrance Monument Easements**" on the Plats (herein referred to as the "Entrance Monument Easements"). Declarant and/or the Association shall have the right to landscape and maintain the areas of the Community so designated as entryways to the Community, to erect and maintain entrance monument(s) thereon bearing the name of the Community, and to erect and maintain lighting for such monument(s), plantings, landscaping, irrigation systems and other improvements typically used for entryways.

10.8 Landscape and Maintenance Easement. Declarant hereby reserves, for the benefit of itself, its successors in interest and assigns, and grants to the Association, its successors and assigns, non-exclusive perpetual easements for the installation, maintenance, and repair of landscaping located in areas so designated on a recorded Plat containing landscaping and/or landscaping amenities, including signage, monuments and irrigation systems, over, across and under those portions of the Community shown and designated as "**Landscape and Maintenance Easements**" on the Plats (herein referred to as "Landscape and Maintenance Easements").

ARTICLE XI Party Walls and Other Shared Structures

11.1 General Rules of Law to Apply.

Each wall, fence, driveway, or similar structure built as a part of the original construction on the Lots which serves and/or separates any two adjoining Lots shall constitute a party structure. To the extent not inconsistent with the provisions of this Section, the general rules of law regarding party walls and liability for property damage due to negligence or willful acts or omissions shall apply to party structures. Any dispute arising concerning a party structure shall be handled in accordance with the provisions of Article XII.

11.2 Maintenance; Damage and Destruction.

Unless otherwise specifically provided in additional covenants relating to such Lots, the Owners sharing the party structure shall share equally in the cost of necessary or appropriate party structure repairs and maintenance.

If a party structure is destroyed or damaged by fire or other casualty, and then to the extent that such damage is not covered by insurance and repaired out of the proceeds of insurance, any Owner sharing the structure may restore it and be entitled to contribution for the restoration cost in equal proportions from other sharing owners. However, such contribution will not prejudice the right to call for a larger contribution from the other users under any rule of law regarding liability for negligent or willful acts or omissions.

The right of any Owner to contribution from any other Owner under this Section shall be appurtenant to the land and shall pass to such Owner's successors-in-title.

ARTICLE XII Dispute Resolution

12.1 Agreement to Encourage Resolution of Disputes Without Litigation.

(a) Declarant, the Association and its officers, directors, and committee members, all Persons subject to this Declaration, and any Person not otherwise subject to this Declaration who agrees to submit to this Article (collectively, "Bound Parties"), agree to attempt to resolve disputes involving Chatsworth without the emotional and financial costs of litigation. Accordingly, each Bound Party agrees not to, directly or indirectly, file a law suit for a Claim described in subsection (b), without first submitting the Claim to the alternative dispute resolution procedures described in Section 12.2.

(b) As used in this Article, the term "Claim" shall refer to any claim, grievance, or dispute arising out of or relating to

- (i) the interpretation, application, or enforcement of the Governing Documents;
- (ii) the rights, obligations, and duties of any Bound Party under the Governing Documents;
- (iii) the design or construction of improvements within the Community, other than matters of aesthetic judgment under Article IV, which shall not be subject to review; or
- (iv) trespass, nuisance, property damage, or enforcement of laws, codes, or ordinances within Chatsworth,

except that the following shall not be considered "Claims" unless all parties to the matter otherwise agree to submit the matter to the procedures set forth in Section 12.2:

- (v) any Association action to collect assessments or other amounts due from any Owner;
- (vi) any Association action to obtain a temporary restraining order (or emergency equitable relief) and such ancillary relief as the court may deem necessary in order to maintain the status quo and preserve the Association's ability to enforce the provisions of this Declaration relating to creation and maintenance of community standards (Articles III and IV);
- (vii) any suit which does not include Declarant or the Association as a party, if such suit asserts a Claim which would constitute a cause of action independent of the Governing Documents;

- (viii) any suit which affects the material rights or obligations of a party who is not a Bound Party and has not agreed to submit to the procedures set forth in Section 12.2; and
- (ix) any suit as to which the applicable statute of limitations would expire within 180 days of giving the Notice required by Section 12.2(a), unless the party or parties against whom the Claim is made agree to toll, or extend, the Claim's statute of limitations to comply with this Article.

12.2 Dispute Resolution Procedures.

(a) Notice. The Bound Party asserting a Claim ("Claimant") against another Bound Party ("Respondent") shall give written notice ("Notice") by mail or personal delivery to each Respondent, and to the Board, stating plainly and concisely:

- (i) the nature of the Claim, including the Persons involved and Respondent's role in the Claim;
- (ii) the legal basis of the Claim (*i.e.*, the specific authority out of which the Claim arises);
- (iii) the Claimant's proposed resolution or remedy; and
- (iv) the Claimant's desire to meet with the Respondent to discuss in good faith ways to resolve the Claim.

(b) Negotiation. The Claimant and Respondent shall make every reasonable effort to meet in person and confer for the purpose of resolving the Claim by good faith negotiation. If requested in writing, accompanied by a copy of the Notice, the Board may appoint a representative to assist the parties in negotiating a resolution of the Claim.

(c) Mediation. If the Bound Parties have not resolved the Claim through negotiation within 30 days of the date of the Notice (or within such other agreed upon period), the Claimant shall have 30 additional days to submit the Claim to mediation with an entity designated by the Association (if the Association is not a party to the Claim) or to an independent agency providing dispute resolution services in the Union County area. Each Bound Party shall present the mediator with a written summary of the Claim.

If the Claimant does not submit the Claim to mediation within such time, or does not appear for and participate in good faith in the mediation when scheduled, the Claimant shall be deemed to have waived the Claim, and the Respondent shall be relieved of any and all liability to the Claimant (but not third parties) on account of such Claim.

If the Bound Parties do not settle the Claim within 30 days after submitting the matter to mediation, or within such time as determined reasonable by the mediator, the mediator shall issue a notice of termination of the mediation proceedings indicating that the Parties are at an impasse and the date that mediation was terminated. The Claimant shall thereafter be entitled to file suit or to initiate administrative proceedings on the Claim, as appropriate.

Each Bound Party shall bear its own costs of the mediation, including attorneys' fees, and each Party shall share equally all fees charged by the mediator.

(d) Settlement. Any settlement of the Claim through negotiation or mediation shall be documented in writing and signed by the Bound Parties. If any Bound Party thereafter fails to abide by, the terms of such agreement, then any other Bound Party may file suit or initiate administrative proceedings to enforce such agreement without the need to again comply with the procedures set forth in this Section. In such event, the Bound Party taking action to enforce the agreement shall, upon prevailing, be entitled to recover from the non-complying Bound Party (or each one in equal proportions) all costs incurred in enforcing such agreement, including, without limitation, attorneys' fees and court costs.

(e) Action Involving Declarant - Final and Binding Arbitration. Except for disputes in which a party other than an Owner or the Association is an indispensable party, all disputes, including any Claim described above, between an Owner or the Association and Declarant shall be resolved by final and binding arbitration in accordance with this subsection (e) and, except as specifically provided, shall not be submitted as a lawsuit or other proceeding in any North Carolina state court or federal court. This subsection (e) is an agreement to arbitrate and is specifically enforceable under North Carolina law. Any arbitration award shall be subject only to review by the North Carolina or federal appellate courts in the same manner as are trial court judgments. Judgment may be entered upon the arbitration award in any court of competent jurisdiction to the fullest extent permitted under North Carolina law.

Prior to commencing arbitration under this subsection, the parties shall engage in negotiation and mediation in accordance with Sections 12.2(a)-(c), regardless of whether such matter is a Claim under Section 12.1. If negotiation and mediation are unsuccessful in resolving the dispute, the Owner or the Association, as applicable, shall have until expiration of the applicable statute of limitations under North Carolina law (as would apply to the same claim being brought in a North Carolina or federal court) to submit the dispute to the American Arbitration Association for arbitration in Union County. The American Arbitration Association shall appoint three arbitrators, including one attorney, to conduct the arbitration in accordance with its rules. The arbitrators shall render a written judgment accompanied by findings of fact and conclusions of law.

If not timely submitted to arbitration or if the Claimant fails to appear for the arbitration proceeding, the Claim shall be deemed abandoned, and the Respondent shall be released and discharged from any and all liability to the Claimant arising out of the dispute. The parties shall share equally the costs of conducting the arbitration until a prevailing party is determined; provided, the prevailing party shall be entitled to recover all of its costs incurred in the action, including, without limitation, reasonable attorneys' fees.

12.3 Initiation of Litigation by Association.

After the class "B" Control Period, the Association shall not initiate any judicial or administrative proceeding which is reasonably expected to cost at least \$100,000.00 in legal fees to prosecute to completion unless first approved by the Board upon the specific recommendation of the Dispute Resolution Committee (which shall be created as provided in the By-Laws), or a

majority of the Class "A" votes in the Association. The Dispute Resolution Committee's recommendation must be in writing and must be accompanied by a feasibility analysis including an explanation of the issues, a budget for legal and related expenses, the amount in controversy, the expectation of success, and a copy of bids from a minimum of three qualified law firms.

ARTICLE XIII Mortgagee Provisions

The following provisions are for the benefit of holders, insurers, and guarantors of first Mortgages on Lots. The provisions of this Article apply to both this Declaration and to the By-Laws, notwithstanding any other provisions contained therein

13.1 Notices of Action.

An institutional holder, insurer, or guarantor of a first Mortgage which provides a written request to the Association (such request to state the name and address of such holder, insurer, or guarantor and the street address of the Lot to which its Mortgage relates, thereby becoming an "Eligible Holder"), will be entitled to timely written notice of:

(a) Any condemnation loss or any casualty loss which affects a material portion of the Community or which affects any Lot on which there is a first Mortgage held, insured, or guaranteed by such Eligible Holder;

(b) Any delinquency in the payment of assessments or charges owed by a Lot subject to the Mortgage of such Eligible Holder, where such delinquency has continued for a period of 60 days, or any other violation of the Governing Documents relating to such Lot or the Owner or occupant which is not cured within 60 days;

(c) Any lapse, cancellation, or material modification of any Association insurance policy;

(d) Any proposed action which would require the consent of a specified percentage of Eligible Holders; or

(e) If the U.S. Department of Housing and Urban Development is insuring or the U.S. Department of Veterans Affairs is guaranteeing the Mortgage on any Lot, material amendment to the Governing Documents or extraordinary action of the Association, as defined under VA Pamphlet 26-7.

13.2 No Priority.

No provision of this Declaration or the By-Laws gives or shall be construed as giving any Owner or other party priority over any rights of the first Mortgagee of any Lot in the case of distribution to such Owner of insurance proceeds or condemnation awards for losses to or a taking of the Common Area.

13.3 Notice to Association.

Upon request, each Owner shall be obligated to furnish to the Association the name and address of the holder of any Mortgage encumbering the Owner's Lot.

13.4 Failure of Mortgagee to Respond.

Any Mortgagee who receives a written request from the Board to-respond to or consent to any action shall be deemed to have approved such action if the Association does not receive a written response from the Mortgagee within 30 days of the date of the Association's request, provided such request is delivered to the Mortgagee by certified or registered mail, return receipt requested.

13.5 HUD/VA Approval.

As long as there is a Class "B" membership, the following actions shall require the prior approval of the U.S. Department of Housing and Urban Development ("HUD") or the U.S. Department of Veterans Affairs ("VA"), if either such agency is insuring or guaranteeing the Mortgage on any Lot: merger, consolidation, or dissolution of the Association; annexation of additional property; dedication, conveyance (other than to correct errors on property descriptions or other inconsequential or immaterial conveyances), or mortgaging of Common Area; or material amendment of this Declaration or the By-Laws. In addition, so long as HUD or VA insures or guarantees the Mortgage on any Lot, the above actions also shall require the prior approval of at least two-thirds (2/3) of the Class "A" Members and the consent of the Class "B" Member.

Notwithstanding anything to the contrary in Section 16.1 or this Section, the Association, acting through the Board, may grant easements over the Common Area for installation and maintenance of utilities and drainage facilities and for other similar purposes not inconsistent with the intended use of the Common Area without the approval of the membership or HUD or VA.

ARTICLE XIV Disclosures and Waivers.

14.1 No Liability For Third Party Acts.

Owners and occupants of Lots, and their respective guests and invitees, are responsible for their own personal safety and for their property in Chatsworth. The Association may, but is not obligated to, maintain or support certain activities within the Community which promote or enhance safety or security within the Community. However, the Association and Declarant shall not in any way be considered insurers or guarantors of safety or security within the Community, nor shall they be held liable for any loss or damage by reason of failure to provide adequate security or ineffectiveness of security measures undertaken.

No representation or warranty is made that any systems or measures, including fire protection, burglar alarm, or other security monitoring systems, or any mechanism or system for limiting access to the Community, cannot be compromised or circumvented, nor that any such systems or measures undertaken will in all cases prevent loss or provide the detection or protection for which the system is designed or intended. Each Owner acknowledges, understands, and shall be responsible for informing its tenants and all occupants of its Lot that

the Association, the Board and its committees and Declarant are not insurers or guarantors of security or safety and that each Person within Chatsworth assumes all risks of personal injury and loss or damage to property, including Lots and the contents of Lots, resulting from acts of third parties.

14.2 View Impairment.

Neither Declarant nor the Association guarantee or represent that any view over and across the Lots or any open space within the Community will be preserved without impairment. Neither Declarant nor the Association shall be obligated to relocate, prune, or thin trees or other landscaping except to maintain the Community-Wide Standard or as otherwise required under a separate covenant or agreement. The Association (with respect to the Common Area) has the right to add trees and other landscaping from time to time subject to applicable law. Any express or implied easements for view purposes or for the passage of light and air are hereby expressly disclaimed.

14.3 Liability for Association Operations.

The Association shall, to the fullest extent permitted by law, indemnify, defend, and hold harmless Declarant and Builder, their successors and assigns, from and against any and all losses, claims, demands, damages, costs, and expenses of whatever kind or nature (including, without limitation, reasonable attorneys' fees and costs at all tribunal levels and, whether or not suit is instituted, including those incurred in establishing the right to be indemnified, defended, and held harmless pursuant hereto), which relate to or arise out of Association management and operations, including, without limitation, improvement, maintenance, and operation of amenities and other portions of the Common Maintenance Areas and the collection of assessments.

14.4 Conveyance of Common Areas.

Declarant shall convey to the Association, and the Association shall accept without recourse, the Common Areas, including all improvements constructed thereon, in their "Where-Is, As-Is" condition. Declarant hereby disclaims and makes no representations, warranties or other agreements, express or implied, by law or fact, with respect to the Common Areas, including, without limitation, representations or warranties of merchantability regarding the condition, construction, accuracy, completeness, design, adequacy of size or capacity in relation to the utilization, date of completion, or the future economic performance or operations of, or the materials, furniture, or equipment used in, the Common Area. Neither the Association nor any Members shall make any claim against Declarant, its successors and assigns, relating to the condition, operation, use, accuracy or completeness of the Common Area, or for incidental or consequential damages arising therefrom.

Declarant shall transfer and assign to the Association, without recourse, all warranties received from manufacturers and suppliers relating to any of the Common Area which exist at the time of transfer and are assignable.

ARTICLE XV Changes in Ownership of Lots

Any Owner, other than Declarant or Builder, desiring to sell or otherwise transfer title to his or her Lot shall give the Board at least 14 days' prior written notice of the name and address of the purchaser or transferee, the date of such transfer of title, and such other information as the Board may reasonably require. The transferor shall continue to be jointly and severally responsible with the transferee for all obligations of the Lot Owner, including assessment obligations, until the date upon which the Board, notwithstanding the transfer of title, receives such notice.

ARTICLE XVI Changes in Common Area**16.1 Condemnation.**

Whenever any part of the Common Area is taken or conveyed under threat of condemnation by any authority having the power of eminent domain, the Board shall determine, in the exercise of its business judgment, whether each Owner is entitled to notice.

The award made for such taking shall be payable to the Association as trustee for all Owners to be disbursed as follows:

If the taking involves a portion of the Common Area on which improvements have been constructed, the Association shall restore or replace such improvements on the remaining land included in the Common Area to the extent practicable, unless, within 60 days after such taking, Declarant, so long as Declarant owns any property within Chatsworth, and at least 75% of the total Class "A" votes in the Association shall otherwise agree. Any such construction shall be in accordance with plans the Board approves. The provisions of Section 7.3 regarding funds for the repair of damage or destruction shall apply.

If the taking does not involve any Common Area improvements, or if a decision is made not to repair or restore, or if net funds remain after any such restoration or replacement is complete, then such award or net funds shall be disbursed to the Association and used for such purposes as the Board shall determine.

16.2 Partition.

Except as permitted in this Declaration, the Common Area shall remain undivided, and no Person shall bring any action for partition of any portion of the Common Area without the written consent of all Owners and Mortgagees. This Section shall not prohibit the Board from acquiring and disposing of tangible personal property nor from acquiring and disposing of real property which may or may not be subject to this Declaration.

16.3 Transfer or Dedication of Common Area.

The Association may convey, dedicate, or otherwise transfer portions of the Common Area to Union County, the Town of Waxhaw, or to any other local, state or federal governmental or quasi-governmental entity, subject to such approval as may be required by Section 13.5 hereof.

16.4 Reconfiguration of Common Area

Declarant reserves the right to reconfigure the boundaries and/or annex or remove portions of the Common Area located along the southern boundaries of the Community, during the Class "B" Control Period, in Declarant's sole discretion without obtaining any consents or approvals from the Owners.

ARTICLE XVII Amendment of Declaration

17.1 By Declarant.

In addition to specific amendment rights granted elsewhere in this Declaration, during the Class "B" Control Period, Declarant may unilaterally amend this Declaration for any purpose.

Thereafter, Declarant may unilaterally amend this Declaration if such amendment is necessary (a) to bring any provision into compliance with any applicable governmental statute, rule, regulation, or judicial determination; (b) to enable any reputable title insurance company to issue title insurance coverage on the Lots; (c) to enable any institutional or governmental lender, purchaser, insurer, or guarantor of mortgage loans, including, for example, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, HUD, or VA, to make, purchase, insure, or guarantee mortgage loans on the Lots; or (d) to satisfy the requirements of any local, state, or federal governmental agency. However, any such amendment shall not adversely affect the title to any Lot unless the Owner shall consent in writing.

17.2 By Class "A" Members.

Except as otherwise specifically provided above and elsewhere in this Declaration, this Declaration may be amended only by the affirmative vote or written consent, or any combination thereof, of Members representing at least 75% of the Association's total Class "A" votes. In addition, during the Development and Sale Period, Declarant's written consent is required for any amendment.

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.

17.3 Validity and Effective Date.

No amendment may remove, revoke, or modify any right or privilege of Declarant or the Class "B" Member without the written consent of Declarant or the Class "B" Member, respectively (or the assignee of such right or privilege). An amendment shall not be effective unless the approval requirements set forth in Article XIII also shall be met, if applicable.

If an Owner consents to any amendment to this Declaration or the By-Laws, it will be conclusively presumed that the Owner has the authority to consent, and no contrary provision in any Mortgage or contract between the Owner and a third party will affect the validity of such amendment.

Any amendment shall become effective upon the earliest of (a) actual notice; (b) recording; or (c) later effective date specified in the amendment. Any procedural challenge to an amendment must be made within one year(s) 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 this Declaration.

17.4 Exhibits.

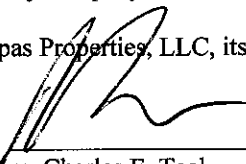
Exhibit "A" attached to this Declaration is incorporated by this reference. Exhibit "B" is incorporated by reference and may be amended as provided in Article III or pursuant to Sections 17.1 and 17.2. All other exhibits are attached for informational purposes and may be amended as provided therein.

IN WITNESS WHEREOF, the undersigned Declarant has executed this Declaration the date and year first written above.

DECLARANT:

CHATSWORTH, LLC, a North Carolina limited liability company

Pappas Properties, LLC, its manager

By: 
Name: Charles E. Teal
Title: Manager

STATE OF NORTH CAROLINA

COUNTY OF Mecklenburg

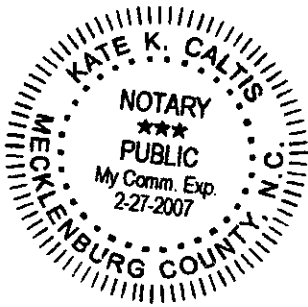
I, Kate K. Caltis, a Notary Public for said County and State, certify that Charles E. Teal personally came before me this day, and being by me duly sworn, acknowledged that he is manager of Pappas Properties, LLC, a North Carolina limited liability company, as manager of Chatsworth, LLC, a North Carolina limited liability company, and that he, as manager of Pappas Properties, LLC, as manager of Chatsworth, LLC, being authorized to do so, executed the foregoing on behalf of the limited liability company.

WITNESS my hand and official seal, this 27th day April, 2005.

Kate K. Caltis
Notary Public

My Commission Expires:

2-27-2007
(NOTARIAL SEAL)



NORTH CAROLINA-MECON COUNTY
The foregoing certificate(s) of
Kate K. Caltis

Notary (y) (1/2) Public
I have certified
to be correct.
CRYSTAL D. CRUMP, REGISTER OF DEEDS
BY: Elizabeth Blasko
ASST/DEPT

EXHIBIT A

BEING all those lots or parcels of land situated in Sandy Ridge Township, Union County, North Carolina and more particularly described as all of Lots 1 through 37, as shown on the plat entitled "Final Plat – Chatsworth Subdivision" and recorded in Map Book I at Page 705, 706 of the Union County Public Registry, to which plat reference is hereby made for a more particular description. ~~FILE~~

EXHIBIT "B"**Initial Use Restrictions**

The purpose of Architectural Guidelines and Use Restrictions is not to anticipate all acceptable or unacceptable behavior in advance and eliminate all improvements or activities which fall outside of "the norm." In fact, it is expressly intended that the Reviewer under Article IV, and the Board, as appropriate, have discretion to approve or disapprove items, or to enforce or not enforce technical violations of the Governing Documents, based upon aesthetic or other considerations consistent with the established guidelines. As such, while something may be approved or permitted for one Lot under one set of circumstances, the same thing may be disapproved for another Lot under a different set of circumstances. The exercise of discretion in approving or enforcement shall not be construed as a waiver of approval or enforcement rights, nor shall it estop the Board from taking enforcement action in any appropriate circumstances.

(a) Animals and Pets. No animals of any kind, including livestock and poultry, shall be raised, bred, or kept on any portion of the Community; provided, a reasonable number of usual and common household pets may be kept on a Lot; and provided, further, in any event, the following breeds of dog (including mixed-breed dogs containing such breeds), because of concerns relating to aggressive behavior and the safety of others in the Community, are prohibited from being kept within the Community; (i) Rottweiler, (ii) pit bull, and (iii) Doberman Pincher. The Board shall have discretion in determining what types and numbers of pets are permissible.

Upon the Board's request, an Owner, at his or her expense, shall remove any pet which is permitted to roam free, or, in the Board's sole discretion, endangers health, makes objectionable noise, or constitutes a nuisance or inconvenience to other Owners or residents of any portion of the Community. If the Owner fails to honor such request, the Board may cause the pet to be removed at the Owner's expense. No pets shall be kept, bred, or maintained for any commercial purpose. Dogs shall be kept on a leash or otherwise confined in a manner acceptable to the Board whenever outside a structure. Animal and pet owners must immediately remove and properly dispose of the bodily waste of their animals and pets on the Common Areas and throughout the Community.

(b) Wildlife. Capturing, killing, or trapping wildlife is prohibited within the Community, except in circumstances imposing an imminent threat to the safety of Persons or pets.

(c) Firearms; Fireworks. The use and discharge of firearms within the Community is prohibited. The term "firearms" includes "B-B" guns, pellet guns, and other firearms of all types, regardless of size. The use and discharge of fireworks is prohibited except by license granted by the Association.

(d) Nuisances. No Owner shall engage in any activity which constitutes a nuisance (meaning offensive or detrimental activity, as determined by the Board), or which materially disturbs or destroys the vegetation, wildlife, or air quality within the Community, or which results in unreasonable levels of sound or light pollution.

(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

PK 3781 DC 834

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.

EXHIBIT D

Additional Property

Any real property which Declarant owns or acquires within ten (10) years from the date of recording of this Declaration, which real property lies within a 2-mile radius of the perimeter boundaries of the property described on Exhibit A.