



**BY-LAWS
OF
NANTUCKET VILLAGE ASSOCIATION II, INC.**

**ARTICLE I.
NAME, PURPOSE AND APPLICABILITY**

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- 1.1 Name. The name of this non-profit, non-stock membership corporation shall be Nantucket Village Association II, Inc., hereinafter referred to as "Association".
- 1.2 Purpose. The purpose of the Association shall be to administer manage, and operate the Nantucket Village II Condominium Property, in accordance with the Unit Ownership Act, the Non-profit Corporation Act of North Carolina, the Declaration, and the Articles of Incorporation and these By-Laws, as may be amended from time to time. The Association shall not engage in any activities other than those directly related to administration of the condominium property and the unit owners' responsibility with respect to the same.
- 1.3 Applicability. These By-Laws are applicable to the property known as Nantucket Village II, as such property is described on Exhibit A and such portions of the real property described in Exhibits A1 which are added to the Condominium Project which are attached to that certain Declaration Creating Unit Ownership and Establishing Restrictions, Covenants, and Conditions for Nantucket Village, II. These By-Laws are binding on all present or future owners, tenants, guests, residents, or other persons occupying or using the facilities of such condominium property. The mere acquisition, rental, or act of occupancy of any part of the condominium property will signify that these By-Laws are accepted, ratified, and will be complied with. The provisions of the Declaration Creating Unit Ownership and Establishing Restrictions, Covenants, and Conditions for Nantucket Village II regarding the governing and administration of the Association are incorporated herein by reference.

**ARTICLE II.
DEFINITIONS**

- 2.1 The definition of words contained in the Declaration, Article I shall apply to those words and terms as used in these By-Laws.

**ARTICLE III.
OFFICES, REGISTERED AGENT, SEAL, FISCAL YEAR**

- 3.1 Principal Office, Registered Office. The principal office of the Association shall be located at 3120 N. Croatan Highway, Suite 101, Kill Devil Hills, North Carolina 27948, or such other places as the Board of Directors may designate from time to time.
- 3.2 Registered Agent. The initial Registered Agent for the unit owners for matters incident to the Condominium Property and the initial Registered Agent for the Association is E. Crouse

Gray, Jr. whose address is 3120 N. Croatan Highway, Suite 401, Kill Devil Hills, North Carolina 27948. The Registered Agent for the Association shall also be the Registered Agent for the unit owners. The individual serving as Registered Agent may be removed from office and replaced at any time by vote of the Board of Directors of the Association.

- 3.3 Seal. The seal of the Association shall contain the name of the Association, the word "Seal", and such other words and figures as desired by the Board of Directors. When obtained, the seal shall be impressed in the margin of the minutes of the initial meeting of the Board of Directors.
- 3.4 Fiscal Year. The fiscal year of the Association shall be October 1 through September 30.

**ARTICLE IV.
MEMBERSHIP**

- 4.1 Qualification. Membership in the Association shall be confined to and consist of the unit owners in the Nantucket Village II Condominium Project. Membership shall be appurtenant to and inseparable from unit ownership. No unit owner shall be required to pay any consideration whatsoever for his membership. Membership in the Association shall inure automatically to unit owners upon acquisition of the fee simple title, whether encumbered or not, to any one or more units. The date of registration of the conveyance in the Dare County Registry of the unit in question shall govern the date of ownership of each particular unit. However, in the case of death, the transfer of ownership shall occur on the date of death in the case of intestacy, or date of probate of the will in the case of testacy. Until a decedent's will is probated, the Association may rely on the presumption that a deceased owner died intestate.
- 4.2 Annual Meetings. The annual meetings of the Unit Owners Association shall be held at least seventy-five days before the beginning of each fiscal year on such date other than Sunday or legal holiday as may be established by the Board of Directors. At such annual meetings, members of the Board of Directors shall be elected by the Unit Owners in accordance with the requirements of Section 5.4 of these By-Laws. During the Declarant Control Period, the Declarant shall be entitled to designate members of the Board of Directors not elected pursuant to Section 4.4. If the special meeting held pursuant to Section 4.4 is held within six months of a scheduled annual meeting, the annual meeting shall not be held until the following year.
- 4.3 Place of Meetings. Meetings of the Unit Owners Association shall be held at the principal office of the Unit Owners Association or at such other suitable place convenient to the Unit Owners as may be designated by the Board of Directors.
- 4.4 Special Meetings.
 - (A) The President shall call a special meeting of the Unit Owners Association if so directed by resolution of the Board of Directors or, after the termination of the Declarant Control Period, upon a petition signed and presented to the Secretary by Unit Owners of not less than twenty-five percent of the aggregate Percentage

Interests. The notice of any special meeting shall state the time, place and purpose thereof. No business shall be transacted at a special meeting except as stated in the notice.

- (B) Not later than the termination of the Declarant Control Period, a special meeting of the Unit Owners Association shall be held at which a majority of the members of the Board of Directors shall be elected by the Unit Owners, including the Declarant if the Declarant owns one or more Units. If such election is held prior to the time required by this section, the members of the Board of Directors elected at such election shall not take office until the earlier of the time such election is required to be held or resignation of a director appointed by the Declarant without appointment of a replacement within ten days. The elected members of the Board of Directors shall assume office in the order of the highest number of votes received. Any remaining members of the Board of Directors designated by the Declarant shall continue to serve until their terms expire; provided, however, that no more than two such directors may serve during the first year after the special meeting and no more than one such director may serve during the second year after the special meetings.
- 4.5 Notice of Meetings. The Secretary shall give to each Unit Owner a notice of each annual or regularly scheduled meeting of the Unit Owners at least twenty-one but not more than thirty days, and of each special meeting of the Unit Owners at least seven but not more than thirty days, prior to such meeting, stating the time, place and purpose thereof. The giving of notice in the manner provided in this Section and Section 11.2 of the By-Laws shall be considered service of notice.
- 4.6 Adjournment of Meetings. If at any meeting of the Unit Owners Association a quorum is not present, Unit Owners of a majority of the Percentage Interests who are present at such meeting, in person or by proxy, may adjourn the meeting to a time not less than forty-eight hours after the time the original meeting was called.
- 4.7 Order of Business. The order of business at all meetings of the Association shall be as follows:
- (A) roll call (proof of quorum);
 - (B) proof of notice of meeting;
 - (C) reading of minutes of preceding meeting;
 - (D) reports of officers;
 - (E) report of Board of Directors;
 - (F) reports of committees;
 - (G) election or appointment of inspectors of election (when so required);
 - (H) election of members of the Board of Directors (when so required);
 - (I) unfinished business; and
 - (J) new business.
- 4.8 Title to Units. Title to a Unit may be taken in the name of one or more Persons, in any manner permitted by law. The Association may acquire, hold and transfer full legal title to one or more Condominium Units in the Condominium in its own name.

4.9 Voting.

- (A) Voting at all meetings of the Association shall be on a percentage basis and the percentages of the vote to which each Unit Owner is entitled shall be the percentage Interest assigned to his Unit in the Declaration. Otherwise, where the ownership of a Unit is in more than one Person, the Person who shall be entitled to cast the vote of such Unit shall be the Person named in a certificate executed by all of the owners of such Unit and filed with the Secretary or, in the absence of such named person from the meeting, the person who shall be entitled to cast the vote of such Unit shall be the person owning such Unit who is present. If more than one person owning such Unit is present, then such vote shall be cast only in accordance with their unanimous agreement.
 - (B) Except where a greater number is required by the Condominium Act, the Declaration or these By-Laws, a Majority of the Unit Owners is required to adopt decisions at any meeting of the Association. If the Declarant owns or holds title to one or more Units, the Declarant shall have the right at any meeting of the Association to cast the votes to which such Unit or Units are entitled.
 - (C) No Unit Owner may vote at any meeting of the Association or be elected to or serve on the Board of Directors if payment of the assessment on his Unit is delinquent more than thirty days and the amount necessary to bring his account current has not been paid at the time of such meeting or election. There shall be no cumulative voting.
- 4.10 Proxies. A vote may be cast in person or by proxy. Such proxy may be granted by any Unit Owner in favor of only another Unit Owner, the Secretary of the Association, the Declarant or his Mortgagee, or in the case of a non-resident Unit Owner, the lessee of such Unit Owner's Unit, his attorney or management agent. Proxies shall be duly executed in writing, shall be witnessed, shall be valid only for the particular meeting designated therein and must be filed with the Secretary before the appointed time of the meeting. Such proxy shall be deemed revoked only upon actual receipt by the person presiding over the meeting of notice of revocation from any of the persons owning such Unit. Except with respect to proxies in favor of a Mortgagee, no proxy shall in any event be valid for a period in excess of one hundred eighty days after the execution thereof.
- 4.11 Quorum. Except as otherwise provided in these By-Laws, the presence in person or by proxy of fifty percent or more of the Unit Owners shall constitute a quorum at all meetings of the Association.
- 4.12 Conduct of Meetings. The President shall preside over all meetings of the Association and the Secretary shall keep the minutes of the meeting and record in a minute book all resolutions adopted at the meeting, as well as a record of all transactions occurring thereat. The President may appoint a person to serve as parliamentarian at any meeting of the Association. The then current edition of Robert's Rules of Order shall govern the conduct of all meetings of the Association when not in conflict with the Declaration, these By-Laws

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or the Condominium Act. All votes shall be tallied by tellers appointed by the President or other officer presiding over the meeting.

**ARTICLE V.
BOARD OF DIRECTORS**

- 5.1 Powers and Duties. The Board of Directors shall have all of the powers and duties necessary for the administration of the affairs of the Association and may do all such acts and things as are not by the Condominium Act, the Declaration or by these By-Laws required to be exercised and done by the Association. The Board of Directors shall have the power from time to time to adopt any Rules and Regulations deemed necessary for the benefit and enjoyment of the Condominium; provided, however, that such Rules and Regulations shall not be in conflict with the Condominium Act, the Declaration or these By-Laws. The Board of Directors shall delegate to one of its member or to a person employed for such purpose the authority to act on behalf of the Board of Directors on such matters relating to the duties of the Managing Agent (as defined in Section 5.2 hereof), if any, which may arise between meetings of the Board of Directors as the Board of Directors deems appropriate. In addition to the duties imposed by these By-Laws or by any resolution of the Association that may hereafter be adopted, the Board of Directors shall on behalf of the Association:
- (A) Prepare and adopt an annual budget, in which there shall be expressed the assessments of each Unit for the Common Expenses.
 - (B) Make assessments against Unit Owners to defray the costs and expenses of the Condominium, establish the means and methods of collecting such assessments from the Unit Owners and establish the period of the installment payment of the annual assessment for Common Expenses.
 - (C) Provide for the operation, care, upkeep and maintenance of all of the Property and services of the Condominium.
 - (D) Designate, hire and dismiss the personnel necessary for the maintenance, operation, repair and replacement of the Common Elements and provide services for the Property and, where appropriate, provide for the compensation of such personnel and for the purchase of equipment, supplies and material to be used by such personnel in the performance of their duties, which supplies and equipment shall be deemed part of the Property.
 - (E) Collect the assessments against the Unit Owners, deposit the proceeds thereof in bank depositories designated by the Board of Directors and use the proceeds to carry out the administration of the Property.
 - (F) Make and amend the Rules and Regulations.
 - (G) Open bank accounts in behalf of the Association and designate the signatories thereon.

- (H) Make, or contract for the making of, repairs, additions and improvements to or alterations of the Property and repairs to and restoration of the Property in accordance with these By-Laws, after damage or destruction by fire or other casualty, or as a result of condemnation or eminent domain proceedings.
- (I) Enforce by legal means the provisions of the Declaration, these By-Laws and the Rules and Regulations, act on behalf of the Unit Owners with respect to all matters arising out of any eminent domain proceeding, and notify the Unit Owners of any litigation against the Association involving a claim in excess of ten percent of the amount of the annual budget.
- (J) Obtain and carry insurance against casualties and liabilities, as provided in Article VIII of these By-Laws, pay the premiums therefor and adjust and settle any claims thereunder.
- (K) Pay the cost of all authorized services rendered to the Association and not billed to Unit Owners of individual Units or otherwise provided for in Sections 7.1 and 7.2 of these By-Laws.
- (L) Keep books with detailed accounts in chronological order of the receipts and expenditures affecting the Property, and the administration of the Condominium, specifying the expenses of maintenance and repair of the Common Elements and any other expenses incurred. Such books and vouchers crediting the entries therein shall be available for examination by the Unit Owners, their attorneys, accountants and authorized agents during general business hours on business days at the times and in the manner set and announced by the Board of Directors for the general knowledge of the Unit Owners. All books and records shall be kept in accordance with generally accepted accounting principles, and the same shall be audited at least once each year by an independent auditor retained by the Board of Directors who shall not be a resident of the Condominium or a Unit Owner. The cost of such audit shall be a Common Expense.
- (M) Notify a Mortgagee of any default hereunder by the Unit Owner of the Unit subject to such Mortgage, if such default continues for a period exceeding thirty days.
- (N) Borrow money on behalf of the Condominium when required in connection with any one instance relating to the operation, care, upkeep, and maintenance of the Common Elements; provided, however, that the consent of at least two-thirds in number and in Percentage Interest of all Unit Owners, obtained either in writing or at a meeting duly called and held for such purpose in accordance with the provisions of these By-Laws, shall be required to borrow any sum in excess of Ten Thousand Dollars. If any sum borrowed by the Board of Directors on behalf of the Condominium pursuant to the authority contained in this subsection (N) is not paid by the Association, a Unit Owner who pays to the creditor a percentage of the total amount due equal to his Percentage Interest in the Condominium shall be entitled to obtain from the creditor a release of any judgment or other lien which such creditor shall have filed, or shall have the right to file, against such Unit Owner's Condominium Unit, and the

Association shall not be entitled to assess his Unit for payment of the remaining amount due such creditor.

- (O) Acquire, hold and dispose of Condominium Units and mortgage the same if such expenditures and hypothecations are included in the budget adopted by the Association.
- (P) Do such other things and acts not inconsistent with the Condominium Act, the Declaration or these By-Laws which the Board of Directors may be authorized to do by a resolution of the Association.

5.2 Managing Agent. The Board of Directors shall employ for the Condominium a "Managing Agent" at a compensation to be established by the Board of Directors.

- (A) Requirements. The Managing Agent shall be a bona fide business enterprise, unaffiliated with the Declarant, which manages common interest residential communities. Such firm shall have experience in real estate community management; and shall employ personnel possessing a high level of competence in the technical skills necessary to property management of the Condominium. The Managing Agent must be able to advise the Board of Directors regarding the administrative operation of the Condominium and shall employ personnel knowledgeable in the areas of condominium insurance, accounting, contract negotiation, and condominium regulation.
- (B) Duties. The Managing Agent shall perform such duties and services as the Board of Directors shall direct. Such duties and services may include, without limitation, the duties listed in subsections 5.1(A), (C), (D), (E), (H), (I), (J), (K), (L), (M), and (P). The Board of Directors may delegate to the Managing Agent all of the powers granted to the Board of Directors by these By-Laws other than the powers set forth in subsections 5.1(B), (F), (G), (N), and (O). The Managing Agent shall perform the obligations, duties and services relating to the management of the property, the rights of mortgagees and the maintenance of reserve funds in compliance with the provisions of these By-Laws.
- (C) Standards. The Board of Directors shall impose appropriate standards of performance upon the Managing Agent. Unless the Managing Agent is instructed otherwise by the Board of Directors:
 - (i) the accrual method of accounting shall be employed and expenses required by these By-Laws to be charged to more than one but less than all Unit Owners shall be accounted for separately;
 - (ii) two or more persons shall be responsible for handling cash to maintain adequate financial control procedures;
 - (iii) cash accounts of the Association shall not be commingled with any other accounts;

- (iv) no remuneration shall be accepted by the Managing Agent from vendors, independent contractors or others providing goods or services to the Association whether in the form of commissions, finders fees, service fees, or otherwise; any discounts received shall benefit the Association;
 - (v) any financial or other interest which the Managing Agent may have in any firm providing goods or services to the Association shall be disclosed promptly to the Board of Directors; and
 - (vi) a semi-annual financial report shall be prepared for the Association containing: (i) an Income Statement reflecting all income and expense activity for the preceding six months on an accrual basis; (ii) an Account Activity Statement reflecting all receipt and disbursement activity for the preceding six months on a cash basis; (iii) an Account Status Report reflecting the status of all accounts in an "actual" versus "projected" (budget) format; (iv) a Balance Sheet reflecting the financial condition of the Association on an unaudited basis; (v) a Budget Report reflecting any actual or pending obligations which are in excess of budgeted amounts by an amount exceeding the operating reserves or ten percent of a major budget category (as distinct from a specific line item in an expanded chart of accounts); and (vi) a Delinquency Report listing all Unit Owners who are delinquent in paying condominium assessments and describing the status of any actions to collect such assessments.
- (D) Limitations. The Board of Directors may employ a Managing Agent for a term not to exceed one year. The Association and the Board of Directors shall not undertake "self-management" or fail to employ a Managing Agent without the consent of a Majority of the Unit Owners and the consent of Mortgagees together holding seventy-five percent of the Mortgages on the Condominium Units. Any contract with the Managing Agent must provide that it may be terminated, without payment of a termination fee, without cause on no more than ninety days written notice and with cause on no more than thirty days written notice.

5.3 Number and Term of Office.

- (A) The first election by the members of the corporation for Directors shall not be held until after the Developer has relinquished control of the Association as described in Paragraph (B) of this Article 5.3. Thereafter, the election of Directors shall take place at the annual meeting of the membership as provided in these Bylaws. After the Developer has relinquished control, there shall be a special meeting of the membership for the purpose of electing a Board of Directors to serve until the next annual meeting and until new Directors are elected.
- (B) The first Board shall consist of three (3) persons elected by the Developer, whose names are set forth in the Articles and successors to any thereof elected by the Developer. The Developer shall have the right to appoint Directors. However, Declarant's control shall terminate no later than the earlier of (i) one hundred and

twenty (120) days after conveyance of seventy-five (75%) percent of the Units, including Units which may be created pursuant to Special Declarant Rights to Unit Owners other than the Declarant; (ii) two (2) years after all Declarants have ceased to offer Units for sale in the ordinary course of business; or (iii) within three (3) years. The Declarant may voluntarily surrender the right to appoint and remove Officers and members of the Board of Directors before termination of that period, but in that event Declarant may require, for the duration of the period of Declarant control, that specified actions of the Association or Board of Directors as described in a recorded instrument executed by the Declarant be approved by the Declarant before they become effective.

Not later than sixty (60) days after conveyance of twenty-five (25%) percent of the Units, including Units which may be created pursuant to Special Declarant Rights, to Unit Owners other than a Declarant at least one (1) member but not less than twenty-five (25%) percent of the members of the Board of Directors shall be elected by Unit Owners other than the Declarant. Not later than sixty (60) days after conveyance of fifty (50%) percent of the Units, including Units which may be created pursuant to Special Declarant Rights to Unit Owners other than Declarant, not less than thirty-three (33%) percent of the Board of Directors shall be elected by Unit Owners other than the Declarant.

5.4 Election of Directors.

- (A) Elections Committee. At least ninety days prior to the special meeting required by Section 4.4(B) of these By-Laws and each annual meeting of the Association, the Board of Directors shall appoint an Elections Committee consisting of a member of the Board of Directors whose term is not then expiring and at least three other Unit Owners. The Elections Committee shall develop election procedures and administer such procedures as are approved by the Board of Directors.
- (B) Nominations. Persons qualified to be directors may be nominated for election only by a nominating petition submitted to the Chairman of the Elections Committee at least thirty-five days before the meeting at which the election is to be held signed by Unit Owners representing at least ten percent of the voting rights and either signed by the nominee or accompanied by a document signed by the nominee indicating the willingness to serve as a member of the Board of Directors; provided, however, that additional nominations may be made from the floor at the meeting at which the election is held for each vacancy on the Board of Directors for which no more than one person has been nominated by petition. The nominee must either be present and consent to the nomination or have indicated in writing the willingness to serve. This subsection (B) does not apply to Persons appointed to the Board of Directors by the Declarant.
- (C) Qualifications. No Person shall be eligible for election as a member of the Board of Directors unless he is (alone or together with one or more other Persons) a Unit Owner. No Person shall be elected as a member of the Board or shall continue to serve as a member of the Board if he is more than sixty days delinquent in his

financial obligations to the Association and a lien has been filed against his Unit. Notwithstanding anything else as contained herein, the Directors appointed by the Developer need not be Unit Owners.

- 5.5 Removal or Resignation of Directors. Except with respect to directors designated by Declarant, at any regular or special meeting duly called, any one or more of the members of the Board of Directors may be removed with or without cause by a Majority of the Unit owners and a successor may then and there be elected to fill the vacancy thus created. Any director whose removal has been proposed by the Unit Owners shall be given at least seven days notice of the time, place and purpose of the meeting and shall be given an opportunity to be heard at the meeting. A member of the Board of Directors may resign at any time and, except for a Director designated by the Declarant, shall be deemed to have resigned upon disposition of his Unit or if not in attendance at three consecutive regular meetings of the Board, unless the minutes reflect consent to such absence.
- 5.6 Vacancies. Vacancies in the Board of Directors caused by any reason other than the removal of a Director by a vote of the Association shall be filled by a vote of a majority of the remaining Directors at a special meeting of the Board of Directors held for such purpose promptly after the occurrence of any such vacancy, even though the Directors present at such meeting may constitute less than a quorum. Each person so elected shall be a member of the Board of Directors until a successor shall be elected at the next annual meeting of the Association. During the Declarant Control Period, the Declarant shall designate the successor to any member previously designated by the Declarant who resigns or is removed.
- 5.7 Organization Meeting. The first meeting of the Board of Directors following the annual meeting of the Association shall be held within thirty days thereafter at such time and place as shall be fixed by the Board at the meeting at which such Board of Directors shall have been elected, and no notice shall be necessary to newly elected members of the Board of Directors in order legally to constitute such meeting, providing a majority of the whole Board of Directors is present at the meeting.
- 5.8 Regular Meetings. Regular meetings of the Board of Directors may be held at such time and place as shall be determined from time to time by a majority of the directors, but such meetings shall be held at least once every six months during each fiscal year. Notice of regular meetings of the Board of Directors shall be given in writing to each director, by hand delivery, mail or telegraph, at least five business days prior to the day named for such meeting.
- 5.9 Special Meetings. Special meetings of the Board of Directors may be called by the President on three business days notice to each director, given in writing by hand delivery, mail or telegraph, which notice shall state the time, place and purpose of the meeting. Special meetings of the Board of Directors shall be called by the President or Secretary in like manner and on like notice on the written request of at least three directors.
- 5.10 Waiver of Notice. Any director may at any time, in writing, waive notice of any meeting of the Board of Directors, and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a director, in person or by telephone communication, at any meeting

of the Board of Directors shall constitute a waiver of notice by him of the time, place and purpose of such meeting. If all directors are present at any meeting of the Board of Directors, no notice shall be required and any business may be transacted at such meeting.

- 5.11 Quorum of Board of Directors. At all meetings of the Board of Directors 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 decision of the Board of Directors. If at any meeting of the Board of Directors there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time. At any such adjourned meeting at which a quorum is present, any business which might have been transacted at the meeting originally called may be transacted without further notice. A member of the Board of Directors who participates in a meeting by means of telephone communication shall be deemed present at the meeting for all purposes.
- 5.12 Compensation. No director shall receive any compensation from the Condominium for acting as such.
- 5.13 Conduct of Meetings. The president shall preside over all meetings of the Board of Directors and the Secretary shall keep a minute book of the Board of Directors recording therein all resolutions adopted by the Board of Directors and a record of all transactions and proceedings occurring at such meetings. The then current edition of Robert's Rules of Order shall govern the conduct of the meetings of the Board of Directors when not in conflict with the Declaration, these By-Laws or the Condominium Act.
- 5.14 Action Without Meeting. Any action by the Board of Directors required or permitted to be taken at any meeting may be taken without a meeting if all of the members of the Board of Directors shall individually or collectively consent in writing to such action. Any such written consent shall be filed with the minutes of the proceedings of the Board of Directors.
- 5.15 Liability of the Board of Directors, Officers, Unit Owners and Unit Owners Association.
- (A) The officers, members of the Board of Directors and members of the Covenants Committee shall not be liable to the Association or any Unit Owner for any mistake of judgment, negligence or otherwise, except for their own individual willful misconduct or bad faith. The Association shall indemnify and hold harmless each of the officers and directors from and against all contractual liability to others arising out of contracts made by the officers or the Board of Directors on behalf of the Association unless any such contract shall have been made in bad faith or contrary to the provisions of the Condominium Act, the Declaration or these By-Laws, except to the extent that such liability is satisfied by directors and officers liability insurance. Officers and members of the Board of Directors shall have no personal liability with respect to any contract made by them on behalf of the Association. The liability of any Unit Owner arising out of any contract made by the officers or Board of Directors, or out of the indemnification of the members of the Board of Directors or officers, or for damages as a result of injuries arising in connection with the Common Elements solely by virtue of his ownership of a Percentage Interest therein or for liabilities incurred by the Association, shall be limited to the total liability multiplied

by his Percentage Interest. Every agreement made by the officers, the Board of Directors or the Managing Agent on behalf of the Association shall, if obtainable, provide that the officers, the members of the Board of Directors or the Managing Agent, as the case may be, are acting only as agents for the Association and shall have no personal liability thereunder (except as Unit Owners), and that each Unit Owner's liability thereunder shall be limited to the Total Liability multiplied by his Percentage Interest. The Association shall indemnify and hold harmless each of the members of the Covenants Committee from and against all liability to others arising out of the due exercise of their responsibilities unless their action shall have been taken in bad faith or contrary to the provisions of the Condominium Act, the Declaration or these By-Laws. The Association shall indemnify any person who was or is a party of, or is threatened to be made a party to, any threatened, pending or completed action, suit or proceeding by reason of the fact that he is or was a director or officer of the Association or a member of the Covenants Committee, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interest of the Condominium.

- (B) The Association shall not be liable for any failure of water supply or other services to be obtained by the Association or paid for as a Common Expense, or for injury or damage to Person or property caused by the elements or by the Unit Owner of any Condominium Unit, or any other Person, or resulting from electricity, water, or ice which may leak or flow from or over any portion of the Common Elements or from any pipe, drain, conduit, appliance, or equipment. The Association shall not be liable to any Unit Owner for loss or damage, by theft or otherwise, of articles which may be stored upon any of the Common Elements. No diminution or abatement of any assessments, as herein elsewhere provided, shall be claimed or allowed for inconvenience or discomfort arising from the making of repairs or improvements to the Common Elements or from any action by the Association to comply with any law, ordinance or with the order or directive of any municipal or other governmental authority.

5.16 Common or Interested Directors. Each member of the Board of Directors shall exercise his powers and duties in good faith and with a view to the interests of the Condominium. No contract or other transaction between the Association and any of its directors, or between the Association and any corporation, firm, or association (including the Declarant) in which any of the directors of the Association are directors or officers or are pecuniarily or otherwise interested, is either void or voidable because any such director is present at the meeting of the Board of Directors or any committee thereof which authorizes or approves the contract or transaction, or because his vote is counted for such purpose, if any of the conditions specified in any of the following subsections exists:

- (A) The fact of the common directorate or interest is disclosed or known to the Board of Directors or a majority thereof or noted in the minutes, and the Board of Directors authorizes, approves or ratifies such contract or transaction in good faith by a vote sufficient for the purpose; or

- (B) The fact of the common directorate or interest is disclosed or known to at least a Majority of the Unit Owners, and the Unit Owners approve or ratify the contract or transaction in good faith by a vote sufficient for the purpose; or
- (C) The contract or transaction is commercially reasonable to the Association at the time it is authorized, ratified, approved or executed.

Any common or interested directors may be counted in determining the presence of a quorum of any meeting of the Board of Directors or committee thereof which authorizes, approves or ratifies any contract or transaction, and may vote thereat to authorize any contract or transaction with like force and effect as if such director were not such director or officer of such Association or not so interested.

5.17 Board of Directors as Attorney-in-Fact. The Board of Directors is hereby irrevocably appointed as agent and attorney-in-fact for the Unit Owners of all of the Units and for each of them, to manage, control and deal with the interests of each Unit Owner in the Common Elements of the Condominium to permit the Board of Directors to fulfill all of its powers, rights, functions and duties. The Board of Directors is hereby irrevocably appointed as agent and attorney-in-fact for each Unit Owner, each Mortgagee, other name insureds and their beneficiaries and any other holder of a lien or other interest in the Condominium or the property to adjust and settle all claims arising under insurance policies purchased by the Board of Directors and to execute and deliver releases upon the payment of claims. The Board of Directors may grant and accept easements and licenses pursuant to the Declaration

5.18 Covenants Committee.

- (A) Purpose. The Board of Directors shall establish a Covenants Committee, consisting of three to five members appointed by the Board of Directors, each to serve for a term of one year, in order to assure that the Condominium shall always be maintained in a manner:
 - (i) providing for visual harmony and soundness of repair;
 - (ii) avoiding activities deleterious to the esthetic or property values of the Condominium;
 - (iii) furthering the comfort of the Unit Owners, their guests and tenants; and
 - (iv) promoting the general welfare and safety of the Condominium community.
- (B) Powers. The Covenants Committee shall regulate the external design, appearance, use and maintenance of the Common Elements. The Covenants Committee shall have the power to impose reasonable fines upon and issue a cease and desist request to a Unit Owner, his guests, invitees, or lessees whose actions are inconsistent with the provisions of the Condominium Act, the Condominium Instruments, the Rules and Regulations or resolutions of the Board of Directors (upon petition of any Unit Owner or upon its own motion). The Covenants Committee shall from time to time, as required, provide interpretations of the Condominium Instruments, Rules and Regulations and resolutions pursuant to the intents, provisions and qualifications thereof when requested to do so by a Unit Owner or the Board of Directors. Any action, ruling or decision of the Covenants Committee may be appealed to the Board

of Directors by any party deemed by the Board of Directors to have standing as an aggrieved party and the Board of Directors may modify or reverse any such action, ruling or decision.

- (C) Authority. The Covenants Committee shall have such additional duties, power and authority as the Board of Directors may from time to time provide by resolution. The Board of Directors may relieve the Covenants Committee of any of its duties, powers and authority either generally or on a case by case basis. The Covenants Committee shall carry out its duties and exercise its powers and authority in the manner provided for in the Rules and Regulations or by resolution of the Board of Directors.

ARTICLE VI. OFFICERS

- 6.1 Designation. The principal officers of the Association shall be the President, the Vice President, the Secretary and the Treasurer, all of whom shall be elected by the Board of Directors. The Board of Directors may appoint an assistant treasurer, an assistant secretary and such other officers as in its judgment may be necessary.
- 6.2 Election of Officers. The officers of the Association shall be elected annually by the Board of Directors at the organization meeting of each new Board of Directors and shall hold office at the pleasure of the Board of Directors.
- 6.3 Removal of Officers. Upon the affirmative vote of a majority of all members of the Board of Directors any officer may be removed, either with or without cause, and a successor may be elected at any regular meeting of the Board of Directors or at any special meeting of the Board of Directors, called for such purpose.
- 6.4 President. The President shall: be the chief executive officer of the Association; preside at all meetings of the Association and of the Board of Directors; have general and active managements of the business of the Association subject to the control of the Board of Directors; see that all orders and resolutions of the Board of Directors are carried into effect; and appoint committees from among the Unit Owners from time to time as the President may in his discretion decide is appropriate to assist in the conduct of the affairs of the Association.
- 6.5 Vice President. The Vice President shall: take the place of the President and perform the duties of the President whenever the President shall be absent or unable to act. If neither the President nor the Vice President is able to act, the Board of Directors shall appoint some other member of the Board of Directors to act in the place of the President, on an interim basis. The Vice President shall also perform such other duties as shall from time to time be imposed by the Board of Directors or by the President.
- 6.6 Secretary. The Secretary shall: keep the minutes of all meetings of the Association and of the Board of Directors; have charge of such books and papers as the Board of Directors may direct; give or cause to be given all notices required to be given by the Association; maintain a register setting forth the place to which all notices to Unit Owners and Mortgagees

hereunder shall be delivered; and, in general, perform all the duties incident to the office of secretary.

- 6.7 Treasurer. The Treasurer shall (together with the Managing Agent): be responsible for the Association funds and securities; keep full and accurate financial records and books of account showing all receipts and disbursements; prepare all required financial data; deposit all monies and other valuable effects in the name of the Board of Directors, the Association, or the Managing Agent, in such depositories as may from time to time be designated by the Board of Directors; and, in general, perform all the duties incident to the office of treasurer.
- 6.8 Execution of Documents. All agreements, contracts, deeds, leases, checks and other instruments of the Association for expenditures or obligations in excess of Two Thousand Dollars, and all checks drawn upon reserve accounts, shall be executed by any two persons designated by the Board of Directors. All such instruments for expenditures or obligations of Two Thousand Dollars or less, except from reserve accounts, may be executed by any one person designated by the Board of Directors.
- 6.9 Compensation of Officers. No officer shall receive any compensation from the Association for acting as such officer.

ARTICLE VII. OPERATION OF THE PROPERTY

- 7.1 Determination of Common Expenses and Assessments Against Unit
- (A) Fiscal Year. The fiscal year of the Association shall be October 1 through September 30 unless otherwise determined by the Board of Directors.
- (B) Preparation and Approval of Budget.
- (i) At least ninety days before the beginning of each fiscal year, the Board of Directors shall adopt a budget for the Association containing an estimate of the total amount considered necessary to pay the cost of maintenance, management, operation, repair and replacement of the Common Elements and those parts of the Units which are the responsibility of the Board of Directors to maintain, repair and replace, and the cost of wages, materials, insurance premiums, services, supplies and other expenses that may be declared to be Common Expenses by the "Act", the Declaration, these By-Laws or a resolution of the Association and which will be required during the ensuing fiscal year for the administration, operation, maintenance and repair of the Property and the rendering to the Unit owners of all related services. The budget shall reflect the separate assessment of Limited Common Expenses.
- (ii) Such budget shall also include such reasonable amounts as the Board of Directors considers necessary to provide working capital, a general operating reserve and reserves for contingencies and replacements. At least sixty days

before the beginning of each fiscal year, the Board of Directors shall send to each Unit Owner a copy of the budget in a reasonable itemized form which sets forth the amount of the Common Expenses and any special assessment payable by each Unit Owner. Such budget shall constitute the basis for determining each Unit Owner's assessment for the Common Expenses of the Association.

- (C) Purpose of Assessments. Assessments levied by the Association shall be used exclusively to promote health, safety, welfare and recreation of the residents of Nantucket Village, in particular for the total improvement and maintenance of the Common Element and Limited Common Elements and for services and facilities related to the use and enjoyment of the Property, including, but not limited to the following:
- (i) cost of taxes and insurance;
 - (ii) repair, replacement, and additions to the Common Elements and Limited Common Elements;
 - (iii) costs of labor, equipment, materials, management and supervision thereof;
 - (iv) cost for maintaining the shrubbery, trees, flowers, and other landscaping, including mowing of any grass;
 - (v) cost of maintaining and repairing all recreational facilities;
 - (vi) cost of utilities and fuel used in operating facilities on the Property;
 - (vii) maintenance and upkeep of all streets and roads within Nantucket Village;
 - (viii) payment of reasonable charges for water and sewage disposal used by the residents of the Properties;
 - (ix) the employment of attorneys and accountants to represent the Association when necessary;
 - (x) any income or other taxes on any funds held by the Association as a reserve for its purposes or otherwise;
 - (xi) the cost of installation and maintenance of a master TV antenna system for all units, if such master TV antenna system is constructed and installed; and
 - (xii) the cost of employing an independent manager to supervise and manage the Properties.
- (D) Assessment and Payment of Common Expenses. Subject to the provisions of subsection 11.I(A) hereof, the total amount of the estimated funds required from

assessments for the operation of the Property set forth in the budget adopted by the Board of Directors shall be assessed against each Unit Owner in proportion to his respective Percentage Interest, except for Limited Common Expenses which shall be assessed against each Unit Owner benefited in proportion to the relative Percentage Interest of such Units interest, and shall be a lien against each Unit Owner's Unit as provided in Section 7.5 of these By-Laws. On or before the first day of each fiscal year, and the first day of each of the succeeding eleven months in such fiscal year, each Unit Owner shall be obligated to pay to the Board of Directors or the Managing Agent (as determined by the Board of Directors), one-twelfth of such assessment or in annual quarterly installments as determined by the Board of Directors. Within ninety days after the end of each fiscal year, the Board of Directors shall supply to all Unit Owners, and to each Mortgagee requesting the same, an itemized accounting of the Common Expenses for such fiscal year actually incurred and paid, together with a tabulation of the amounts collected pursuant to the budget adopted by the Board of Directors for such fiscal year, and showing the net amount over or short of the actual expenditures plus reserves. Any amount accumulated in excess of the amount required for actual expenses and reserves shall, at the discretion of the Board of Directors, be placed in reserve accounts, be placed in a special account to be expended solely for the general welfare of the Unit Owners, or be credited according to each Unit Owner's Percentage Interest to the next monthly or quarterly installment due from Unit Owners under the current fiscal year's budget, until exhausted. Any net shortage shall be assessed promptly against the Unit Owners in accordance with their Percentage Interests and shall be payable either:

- (i) in full with payment of the next monthly or quarterly assessment due; or
 - (ii) in not more than four equal monthly installments, as the Board of Directors may determine.
- (E) Reserves. The Board of Directors shall build up and maintain reasonable reserves for working capital, operations, contingencies and replacements. Extraordinary expenditures not originally included in the annual budget which may become necessary during the year shall be charged first against such reserves. If the reserves are inadequate for any reason, including non-payment of any Unit Owner's assessment, the Board of Directors may at any time levy a further assessment; which shall be assessed against the Unit Owners according to their respective Percentage Interests, and which may be payable in a lump sum or in installments as the Board of Directors may determine. The Board of Directors shall serve notice of any such further assessment on Unit Owners by a statement in writing giving the amount and reasons there for, and such further assessment shall, unless otherwise specified in the notice, become effective with the next monthly payment which is due more than ten days after the delivery of such notice of further assessment. All Unit Owners so notified shall be obligated to pay the adjusted monthly amount or, if such further assessment is not payable in installments, the amount of such assessment. Such assessment shall be a lien as of the effective date as set forth in the preceding subsection (D).

(F) Initial Capital Payment.

- (i) Upon taking office, the first Board of Directors elected or designated pursuant to these By-Laws shall determine the budget, as defined in this Section, for the period commencing thirty days after such selection and ending on the last day of the fiscal year in which such selection occurs. Assessments shall be levied and become a lien against the Unit Owners during such period as provided in subsection (D) of this Section;
- (ii) The Declarant as the agent of the Board of Directors, will collect from each initial purchaser at the time of settlement an "initial capital payment" equivalent to twice the estimated monthly assessment for Common Expenses for such purchaser's Unit. The Declarant will deliver the funds so collected to the Board of Directors to provide the necessary working capital for the Association. Such funds may be used for certain prepaid items, initial equipment, supplies, organizational costs and other start-up costs, and for such other purposes as the Board of Directors may determine.

(G) Effect of Failure to Prepare or Adopt Budget. The failure or delay of the Board of Directors to prepare or adopt a budget for any fiscal year shall not constitute a waiver or release in any manner of a Unit Owner's obligation to pay his allocable share of the Common Expenses as herein provided whenever the same shall be determined and, in the absence of any annual budget or adjusted budget, each Unit Owner shall continue to pay each monthly installment at the monthly rate established for the previous fiscal year until notified of the monthly payment which is due more than ten days after such new annual or adjusted budget is adopted.

(H) Accounts. All sums collected by the Board of Directors with respect to assessments against the Unit Owners or from any other source may be commingled into a single fund or held for each Unit Owner in accordance with his Percentage Interest.

7.2 Payment of Common Expenses. Each Unit Owner shall pay the Common Expenses, including Limited Common Expenses, assessed by the Board of Directors pursuant to the provisions of Section 7.1. No Unit Owner shall be liable for the payment of any part of the Common Expenses assessed against his Unit subsequent to the date of recordation of a conveyance by him in fee of such Unit. Prior to or at the time of such conveyance, all liens, unpaid charges and assessments shall be paid in full and discharged. The purchaser of a Unit shall be jointly and severally liable with the selling Unit Owner for all unpaid assessments against the latter for his proportionate share of the Common Expenses up to the time of such recordation, without prejudice to the purchaser's right to recover from the selling Unit Owner amounts paid by the purchaser therefor; provided, however, that any such purchaser shall be entitled to a statement setting forth the amount of the unpaid assessments against the selling Unit Owner within seven business days following a written request therefor to the Board of Directors or Managing Agent and such purchaser shall not be liable for, nor shall the Unit conveyed be subject to a lien for, any unpaid assessments in excess of the amount therein set forth.

- 7.3 Collection of Assessments and Default. The payment of any assessment or installment thereof shall be in default if such assessment or installment is not paid to the Association within thirty days of the due date for such payment. When in default, the delinquent assessment or delinquent installment thereof due to Association shall bear interest at the highest rate allowed by law until such delinquent assessment or installment thereof, and all interest due thereon, has been paid in full to Association. All monies owing to Association shall be due and payable at the main office of Association in the State of North Carolina, or as determined by the Board of Directors.
- 7.4 Liability. The Owner or Owners of each Condominium Unit shall be personally liable, jointly and severally, to the Association for the payment of all assessments, regular or special, which may be levied by the Association against such Condominium Unit while such party or parties are Owner or Owners of a Condominium Unit. In the event that any Unit Owner or Owners are in default in payment of any assessment or installment thereof owed to the Association, such Unit Owner or Owners shall be personally liable, jointly and severally, for interest on such delinquent assessment or installment thereof as above provided, and for all costs of collecting such assessment or installment thereof and interest thereon, including a reasonable attorney's fee, whether suit be brought or not.

No Owner of a Condominium Unit may exempt himself from liability for any assessment levied against him or his Condominium Unit by waiver of the use of enjoyment of any of the Common Property, or by abandonment of the Condominium Unit or in any other way.

- 7.5 Lien and Enforcement. Recognizing that proper operation and management of the Condominium requires the continuing payment of costs and expenses therefor, and that such proper operation and maintenance results in benefit to all of the Owners of Condominium Units, and that the payment of such common expenses represented by the assessments levied and collected by the Association is necessary in order to preserve and protect the investment of each Unit Owner, the Association is hereby granted a lien upon each Condominium Unit and its appurtenant undivided interest in Common Property, which lien shall secure and does secure the monies due for all assessments now or hereafter levied against the Owner of each such Condominium Unit, which lien shall also secure interest, if any, which may be due on the amount of any delinquent assessments owing to the Association, and which lien shall also secure all costs and expenses, including reasonable attorneys' fees, which may be incurred by the Association in enforcing this lien upon said Condominium Unit and its appurtenant undivided interest in Common Elements. The lien granted to the Association may be foreclosed in the same manner that real estate deeds of trust and mortgages may be foreclosed in the State of North Carolina, and in any suit for the foreclosure of said lien, the Association shall be entitled to a reasonable rental from the Owner of any Condominium Unit from the date on which the payment of any assessment or installment thereof became delinquent, and shall be entitled to the appointment of a Receiver for said Condominium Unit. The lien granted to the Association shall further secure such advances for taxes, and payments on account of superior mortgages, liens or encumbrances which may be required to be advanced by the Association in order to preserve and protect its lien, and the Association shall further be entitled to interest at the highest rate allowed by law on any such advances made for such purpose. All persons, firms or corporations who shall acquire, by whatever means, any interest in the ownership of any Condominium Unit, or who may be

given or acquire a mortgage, lien or other encumbrance thereon, are hereby placed on notice of the lien rights granted to the Association, and shall acquire such interest in any Condominium Unit expressly subject to such lien rights.

The lien herein granted unto the Association shall be enforceable from and after the time of recording a claim of lien in the Public Records of Dare County, North Carolina, which claim shall state the description of the Condominium Unit encumbered thereby, the name of the record owner, the amount due and the date when due. The claim of lien shall be recordable any time after default and the lien shall continue in effect until all sums secured by said lien as herein provided shall have been fully paid. Such claims of lien shall include only assessments which are due and payable when the claim of lien is recorded, plus interest, costs, attorneys' fees, advances to pay taxes and prior encumbrances and interest thereon, all as above provided.

Such claims of lien shall be signed and verified by an officer or agent of the Association. Upon full payment of all sums secured by such claim of lien, the same shall be satisfied of record.

The lien provided for herein shall be subordinate to the lien of any mortgage or deed of trust and any person, firm or corporation acquiring title to any Condominium Unit and its appurtenant undivided interest in Common Elements by virtue of any foreclosure, deed in lieu of foreclosure or judicial sale, shall be liable and obligated only for assessments as shall accrue and become due and payable for said Condominium Unit and its appurtenant undivided interest in Common Property subsequent to the date of acquisition of such title, and it shall not be liable for the payment of any assessments which were in default and delinquent at the time it acquired such title. In the event of the acquisition of title to a Condominium Unit by foreclosure, deed in lieu of foreclosure or judicial sale, any assessment or assessments as to which the party so acquiring title shall not be liable shall be absorbed and paid by all Owners of all Condominium Units as a part of the common expense, although nothing herein contained shall be construed as releasing the party liable for such delinquent assessment from the payment thereof or the enforcement of collection of such payment by means other than foreclosure.

Institution of a suit at law to attempt to effect collection of the payment of any delinquent assessment shall not be deemed to be an election by the Association which shall prevent it from thereafter seeking, by foreclosure action, enforcement of the collection of any sums remaining owing to it, nor shall proceeding by foreclosure to attempt such collection be deemed to be an election precluding the institution of a suit at law to collect any sum then remaining owing to Association.

- 7.6 Statement of Common Expenses. The Board of Directors shall promptly provide any Unit Owner, contract purchaser or Mortgagee so requesting the same in writing with a written statement of all unpaid assessments for Common Expenses due from such Unit Owner. The Board of Directors may impose a reasonable charge for the preparation of such statement to cover the cost of preparation.
- 7.7 Maintenance, Repair, Replacement and Other Common Expenses.
- (A) By the Board of Directors. The Board of Directors shall be responsible for the maintenance, repair and replacement (unless, if in the opinion of not less than eighty percent of the Board of Directors such expense was necessitated by the negligence, misuse or neglect of a Unit Owner) of all of the Common Elements (including the Limited Common Elements as defined herein or in the Declaration, the cost of which

shall be charged to all Unit Owners as a Common Expenses; provided, however, that each Unit Owner shall perform normal maintenance on the Limited Common Elements appurtenant to this Unit and any portion of the remaining Common Elements which the Board of Directors pursuant to the Rules and Regulations has given him permission to utilize, including without limitation the items enumerated in subsection (B) hereof.

- (B) By the Unit Owner, Every Owner shall perform promptly all maintenance and repair work within his Condominium Unit which, if omitted would affect the Condominium, either in its entirety or in a part belonging to other owners, every owner being expressly responsible for the damages and liability which his failure to do so may engender. The Owner of each Condominium Unit shall be liable and responsible for the maintenance, repair and replacement, as the case may be, of all air conditioning and heating equipment, stoves, refrigerators, fans, or other appliances or equipment, including any fixtures and or their connections required to provide water, light, power, telephone, sewage and sanitary service to his Condominium Unit. Such Owner shall further be responsible and liable for the maintenance, repair and replacement of the exterior surfaces of any and all walls, ceilings and floors within his Unit, including painting, decorating and furnishings, and all other accessories which such Owner may desire to place or maintain in his Condominium Unit. Whenever the maintenance, repair, and replacement of any item for which the Owner of a Condominium Unit is obligated to maintain, replace or repair at his own expense is occasioned by any loss or damage which may be covered by any insurance maintained in force by the Association, the proceeds of the insurance received the Association shall be used for the purpose of making such maintenance, repair or replacement except that the Owner of such Condominium Unit shall be, in said instance, required to pay such portion of the costs of such maintenance, repair and replacement as shall, by reason of the applicability of any deductibility provision of such insurance, exceed the amount of the insurance proceeds applicable to such maintenance, repair or replacement. The Owner of a Condominium Unit who has exclusive use of any Limited Common Area and Facility shall maintain such at his own expense, unless said Limited Common Elements have been specifically designated by the Board of Directors as maintenance responsibility of the Association. All glass doors, window frames, panes and screens are a part of the respective Condominium Units and shall be maintained by the respective Unit Owners.
- (C) Chart of Maintenance Responsibilities. Notwithstanding the general provisions for maintenance set forth in subsections (A) and (B) above, specific maintenance responsibilities and projected costs attributable thereto shall, to the extent set forth thereon, be determined pursuant to the Chart of Maintenance Responsibilities attached as Exhibit E hereto.
- (D) Manner of Repair and Replacement. All repairs and replacements shall be substantially similar to the original construction and installation and shall be of first-class quality, but may be done with compatible building materials and equipment.

The method of approving payment vouchers for all repairs and replacements shall be determined by the Board of Directors.

- 7.8 Additions, Alterations or Improvements by Board of Directors. Except during Declarant Control Period, whenever in the judgment of the Board of Directors the Common Elements shall require additions, alterations or improvements costing in excess of Ten Thousand Dollars during any period of twelve consecutive months, the making of such additions, alterations or improvements requires the prior approval of a Majority of the Unit Owners, and the Board of Directors shall assess all Unit Owners benefited for the cost thereof as a Common Expenses (or Limited Common Expense). Any additions, alterations or improvements costing Ten Thousand Dollars or less during any period of twelve consecutive months may be made by the Board of Directors without approval of the Unit Owners and the cost thereof shall constitute a Common Expense or Limited Common Expense, depending on the nature of the additions, alterations or improvements. The Ten Thousand Dollar limitation shall be increased annually by the percentage equal to any percentage increase in the annual budget of the Condominium. Notwithstanding the foregoing, if in the opinion of not less than eighty percent of the members of the Board of Directors, such additions, alterations or improvements are exclusively or substantially exclusively for the benefit of the Unit Owner or Unit Owners requesting the same, such requesting Unit Owners shall be assessed therefor in such proportion as they jointly approve or, if they are unable to agree thereon, in such proportion as may be determined by the Board of Directors.
- 7.9 Additions, Alterations or Improvements by the Unit Owners. No Unit Owner shall make any structural additions, alteration or improvement in or to his Unit without the prior written consent of the Board of Directors or the Covenants Committee as appropriate. No Unit Owners shall paint or alter the exterior of his Unit, including the doors and windows, nor shall any Unit Owner paint or latex the exterior of any building, without the prior written consent of the Board of Directors or the Covenants Committee as appropriate. The Board of Directors shall be obligated to answer any written request by a Unit Owner for approval of a proposed structural addition, alteration or improvement in such Unit Owner's Unit within sixty days after such request, and failure to do so within the stipulated time shall constitute a consent by the Board of Directors or the Covenants Committee to the proposed structural addition, alteration or improvement. If any application to any governmental authority for a permit to make any such structural addition, alteration or improvement in or to any Unit requires execution by the Association, and provided consent has been given by the Board of Directors, then the application shall be executed on behalf of the Association by the Board of Directors only, without however incurring any liability on the part of the Board of Directors or any of them to any contractor, subcontractor or materialman on account of such addition, alteration or improvement, or to any person having claim for injury to person or damage to property arising therefrom. Subject to the approval of any Mortgagee of such affected Units, the Board of Directors and any Unit Owner affected, any Unit may be subdivided or may be altered so as to relocate the boundaries between such Unit and any adjoining Units. The Secretary shall record any necessary amendment to the Declaration to effect such action by recording the same in the Dare County Registry. The provisions of this Section 7.9 shall not apply to Units owned by the Declarant until deeds of conveyance of such Units shall have been recorded; provided, however, that Declarant's construction or alterations shall be architecturally compatible with existing Units. The Declarant shall have

the right to make such alterations or subdivisions without the consent of the Board of Directors, and the Board of Directors shall execute any such application required.

7.10 Restrictions on Use of Units and Common Elements; Rules and Regulations.

- (A) Restrictions. Each Unit and the Common Elements shall be occupied and used as follows:
- (i) Except for the areas of the Condominium designated for recreational use and except as provided in the Declaration, no Unit shall be used for other than housing and the related common purposes for which the Property was designed. The Board of Directors may permit reasonable, temporary non-residential uses from time to time. Nothing in these By-Laws shall be construed to prohibit the Declarant from using any Unit owned by Declarant for promotional, marketing or display purposes or from using any appropriate portion of the Common Elements for settlement of sales of Condominium Units and for warranty administration purposes.
 - (ii) Nothing shall be done or kept in any Unit or in the Common Elements which will increase the rate of insurance for the Property or any part thereof applicable for residential use without the prior written consent of the Board of Directors. No Unit Owner shall permit anything to be done or kept in his Unit or in the Common Elements which will result in the cancellation of insurance on the Property or any part thereof or which would be in violation of any law, regulation or administrative ruling. No waste shall be committed on the Common Elements.
 - (iii) No immoral, improper, offensive or unlawful use shall be made of the Property or any part thereof, and all valid laws, zoning ordinances and regulations of all governmental agencies having jurisdiction thereof shall be observed. All laws, orders, rules, regulations or requirements of any governmental agency having jurisdiction thereof relating to any portion of the Property shall be complied with, by and at the sole expense of the Unit Owner or the Board of Directors, whichever shall have the obligation to maintain or repair such portion of the Property, and, if the latter, then the cost of such compliance shall be a Common Expense.
 - (iv) No Unit Owner shall obstruct any of the Common Elements nor shall any Unit Owner place or cause or permit anything to be placed on or in any of the Common Elements without the approval of the Board of Directors. Nothing shall be altered or constructed in or removed from the Common Elements except upon the prior written consent of the Board of Directors or the Covenants Committee, as appropriate.
 - (v) The Common Elements shall be used only for the furnishing of the services and facilities for which the same are reasonably suited and which are incident to the use and occupancy of the Units.

- (vi) No portion of any Unit (other than the entire Unit) shall be leased for any period. No Unit Owner shall lease a Unit other than on a written form of lease: (i) requiring the lessee to comply with the Condominium Instruments and Rules and Regulations; (ii) providing that failure to comply constitutes a default under the lease, and (iii) providing that the Board of Directors has the power to terminate the lease or to bring summary proceedings to evict the tenant in the name of the lessor thereunder after thirty days prior written notice to the Unit Owner, in the event of a default by the tenant in the performance of the lease. The Board of Directors may provide a suggested standard form lease for use by Unit Owners. Each Unit Owner of a Condominium Unit shall, promptly following the execution of any lease of a Condominium Unit, forward a conformed copy thereof to the Board of Directors. The foregoing provisions of this paragraph, shall not apply to the Declarant, or to a Mortgagee in possession of a Unit as a result of foreclosure, judicial sale or a proceeding in lieu of foreclosure.
- (vii) No trailers, campers, mobile-homes, recreational vehicles, boats and other large vehicles may be parked on the Property, except for boats which may be moored in the Currituck Sound abutting the Property. No junk or derelict vehicle or other vehicle on which current registration plates are not displayed shall be kept upon any of the Common Elements. Vehicle repairs other than ordinary washing and waxing are not permitted on the Property.
- (viii) The maintenance, keeping, boarding and/or raising of animals, livestock, poultry or reptiles of any kind, regardless of number, shall be and is prohibited within the Unit or upon the Common Elements, except that the keeping of small, orderly domestic pets (e.g., dogs, cats or caged birds not to exceed one animal per Unit without the approval of the Board of Directors, is permitted, subject to the Rules and Regulations adopted by the Board of Directors; provided, however, that such pets are not kept or maintained for commercial purposes or for breeding and provided, further, that any such pet causing or creating a nuisance or unreasonable disturbance or noise may be permanently removed from the Property upon ten days written notice from the Board of Directors. Such pets shall not be permitted upon the Common Elements unless accompanied by an adult and unless carried or leashed. Any Unit Owner who keeps or maintains any pet upon any portion of the Property shall be deemed to have indemnified and agreed to hold the Association, each Unit Owner and the Declarant free and harmless from any loss, claim or liability of any kind or character whatever arising by reason of keeping or maintaining such pet within the Condominium. All pets shall be registered with the Board of Directors and shall otherwise be registered and inoculated as required by law. The Board of Directors may establish reasonable fees for registration of pets not to exceed the additional costs incurred by the "Association" resulting from the presence of such pets.
- (ix) Except for such signs as may be posed by the Declarant for promotional or marketing purposes, no signs of any character shall be erected, posted or

displayed upon, in, from or about any Unit or Common Elements without the prior written consent of the Board of Directors. The foregoing provisions of this paragraph shall not apply to a Mortgagee in possession of a Unit as a result of foreclosure, judicial sale or a proceeding in lieu of foreclosure.

- (x) No Unit may be divided or subdivided into smaller units. Units may be combined in accordance with the provisions of Article VII, Section 7.7(B) in which event the Percentage Interest in the Common Elements would be the total percentages of each of the units prior to their joinder.
 - (xi) In the event a master antenna system is installed at Nantucket Village II, no television antennas, radio receiver or sender or other similar device shall be attached to or installed on the exterior portion of any structure or any lot; provided, however, that the provisions of this paragraph shall not apply to the installation of equipment necessary for a CATV and mobile radio system within Nantucket Village II.
 - (xii) All motorized vehicles operating within Nantucket Village II must be properly muffled so as to eliminate noise which might be offensive to others. Two and three wheel motorized vehicles as well as four wheel "go-cart" or "beach buggy" type vehicles are prohibited from being used or operated within Nantucket Village II.
 - (xiii) No person shall do any act to modify or change the landscaping of the Common Elements or Limited Common Elements including the planting or removing of any shrubbery or trees, without the express written authority of the Board of Directors. The Board of Directors, at its discretion, may adopt and promulgate rules and regulations regarding the preservation of trees and other natural resources and wildlife upon the Properties.
 - (xiv) No person shall obstruct, alter or in any way modify the established drainage from on, or over, any Unit, Common Element, or Limited Common Element.
- (B) Changes to Rules and Regulations. Each Unit and the Common Elements shall be occupied and used in compliance with the Rules and Regulations which may be promulgated and changed by the Board of Directors. Copies of the Rules and Regulations shall be furnished by the Board of Directors to each Unit Owner. Changes to the Rules and Regulations shall be conspicuously posted prior to the time when the same shall become effective and copies thereof shall be furnished to each Unit Owner upon request.
- (C) Architectural Control. To preserve the architectural appearance of Nantucket Village II, after the purchase of a Condominium Unit from Declarant, its successors, or assigns, no exterior construction of any nature whatsoever, except as specified in the Act or this Declaration, shall be commenced or maintained upon any building, including without limitation, the Limited Common Areas and Facilities, nor shall there be any change, modification, or alteration of any nature whatsoever of the

design and, appearance of any of the exterior surfaces, or facades, nor shall any owner paint, decorate, or change the color of any exterior surface, gate, fence, or roof, nor shall any owner change the design or color of the exterior lights, nor shall any owner install, erect, or attach to any part of the exterior any sign of any kind whatsoever, nor shall any exterior addition or change, including without limitation, the generality of the foregoing, the erection or construction of any fence or wall, be made unless and until the plans and specifications showing the nature, kind, shape, height, materials, color, and location of the same shall have been submitted and approved in writing as to harmony of exterior design, color, and location in relation to the surrounding structures by the Board after review of any written proposal by the Covenants Committee [see: Article V, Sec. 5.18 of these By-Laws] and said Committee has made recommendations to the Board of Directors for their consideration. The Declarant shall be exempt from these provisions during the Declarant Control Period.

- 7.11 Right of Access. By acceptance of this deed of conveyance, each Unit Owner, thereby grants a right of access to his Unit, as provided by Section 7.5 of the Declaration, to the Board of Directors or the Managing Agent, or any other person authorized by the Board of Directors or the Managing Agent, or any group of the foregoing, for the purpose of enabling the exercise and discharge of their respective powers and responsibilities, including without limitation making inspections correcting any condition originating in his Unit or in a Common Element to which access is obtained through his Unit and threatening another Unit or the Common Elements, performing installations, alterations or repairs to the mechanical or electrical services or the Common Elements in his Unit or elsewhere in the property or to correct any condition which violates any Mortgage; provided, however, that requests for entry are made in advance and that any such entry is at a time reasonably convenient to the Unit Owner. In case of an emergency, such right of entry shall be immediate, whether or not the Unit Owner is present.
- 7.12 Utility Charges. The cost of utilities serving the Condominium not individually metered to a Unit shall be Common Expense allocated pursuant to Section 7.1 hereof.
- 7.13 Use and Transfer of Parking Spaces.
- (A) The Declarant shall assign the use of two particular parking spaces to a particular Unit at the time the Unit is originally acquired from the Declarant. The assignment of use shall be made by describing the particular parking space by reference thereto in a book entitled "Parking Space Assignments" which book shall be maintained by the Declarant until such time as the Declarant transfers all authority to the Association which said book shall be for the purpose of listing each assignee of each parking space and the transfer thereof. Each transfer shall be recorded in the book and the owner of the Unit to which its use is assigned shall have the exclusive right to the use thereof. Upon a conveyance of or the passing of title to the Condominium Unit to which said parking space is assigned, the Owner of said Unit making the conveyance shall deliver notice of transfer thereof to the Association which shall thereupon cause to be executed a new assignment in the assignment book.

- (B) All other parking spaces designated as such on the Plats and Plans shall be used by the Unit Owners for self-service parking purposes on a "first come, first served" basis; provided, however, that no Unit Owner shall park more than two vehicles (owned or leased by such Unit Owner, a member of his family or a tenant residing in his Unit) on the Common Element parking spaces without the prior written consent of the Board of Directors. The cost of maintenance and repair of all parking areas shall be a Common Expense.
- (C) Parking spaces may be separately transferred upon the following conditions:
 - (i) At anytime a parking space may be surrendered or transferred by a Unit Owner to the Association.
 - (ii) The use of a parking space may be transferred by a Unit Owner to any other Unit Owner within the Condominium provided that written notice thereof, executed by the transferor and the transferee shall be submitted to the Association which shall record such transfer in the assignment book.
 - (iii) The Association shall have the absolute right to assign parking spaces assigned or transferred to the Association, and requests for the assignment of parking spaces held by the Association shall be considered by the Association on a "first come first served" basis or on such other terms and conditions as may be adopted by the Association.
- (D) No trucks used for commercial purposes, or trucks over one-half ton capacity may be parked overnight. Only vehicles bearing current licenses and registration tags may be parked overnight. The Association shall have the right to authorize the towing away of any violating vehicles with costs to be borne by the owner or operator thereof.

**ARTICLE VIII.
INSURANCE**

8.1 Authority to Purchase; Notice.

- (A) Except as otherwise provided in Section 8.5, all insurance policies relating to the Property shall be purchased by the Board of Directors. The Board of Directors, the Managing Agent and the Declarant shall not be liable for failure to obtain any coverages required by this Article VIII or for any loss or damage resulting from such failure if such failure is due to the unavailability of such coverages from reputable insurance companies, or if such coverages are available only at a demonstrably unreasonable cost. The Board of Directors shall promptly furnish to each Unit Owner written notice of the procurement of, subsequent changes in, or termination of, insurance coverages obtained on behalf of the Association.
- (B) Each such policy shall provide that:

- (i) The insurer waives any right to claim by way of subrogation against the Declarant, the Association, the Board of Directors, the Managing Agent or the Unit Owners, and their respective agents, employees, guests and, in the case of the Unit Owners, the members of their households;
 - (ii) Such policy shall not be canceled, invalidated or suspended due to the conduct of any Unit Owner (including his invitees, agents or employees) or of any member, officer or employee of the Board of Directors or the Managing Agent without a prior demand in writing that the Board of Directors or the Managing Agent cure the defect and neither shall have so cured such defect within sixty days after such demand;
 - (iii) Such policy may not be canceled or substantially modified (including cancellation for nonpayment of premium) without at least sixty days prior written notice to the Board of Directors and the Managing Agent and, in the case of physical damage insurance, to all Mortgagees.
- (C) The Declarant, so long as Declarant shall own any Unit, shall be protected by all such policies as a Unit Owner.
 - (D) All policies of insurance shall be written by reputable companies licensed to do business in the State of North Carolina. Physical damage policies shall be in form and substance and with carriers acceptable to Mortgagees holding a majority of the Mortgages (based upon one vote for each Mortgage owned).
 - (E) The deductible, if any, on any insurance policy purchased by the Board of Directors shall be a Common Expense, except where the claim is for components of a Unit.

8.2 Physical Damage Insurance.

- (A) The Board of Directors shall obtain and maintain a blanket, "all-risk" form policy of fire insurance with extended coverage, vandalism, malicious mischief, windstorm, debris removal, cost of demolition and water damage endorsements, insuring the entire Property including fixtures and appliances initially installed by the Declarant but not including furniture, wall coverings, furnishings or other personal property supplied or installed by Unit Owners, and covering the interests of the Association, the Board of Directors and all Unit Owners and their Mortgagees, as their interests may appear, (subject, however, to the loss payment and adjustment provisions in favor of the Board of Directors as Insurance Trustee contained in Section 8.6), in an amount equal to 100% of the then current replacement cost of the Property (exclusive of the land, foundations and other items normally excluded from such coverage), without deduction for depreciation (such amount to be redetermined annually by the Board of Directors with the assistance of the insurance company affording such coverage).
- (B) Such policy shall also provide:

- (i) A waiver of any right of the insurer to repair, rebuild or replace any damage or destruction, if a decision is made pursuant to these By-Laws not to do so;
- (ii) The following endorsements (or equivalent): (i) "no control" (to the effect that coverage shall not be prejudiced by any act or neglect of any occupant or Unit Owner or their agents when such act or neglect is not within the control of the insured, or the Unit Owners collectively; nor by any failure of the insured, or the Unit Owners collectively, to comply with any warranty or condition with regard to any portion of the Condominium over which the insured, or the Unit Owners collectively, have no control); (ii) "contingent liability from operation of building laws or codes"; (iii) "increased cost of construction" or "condominium replacement cost"; and (iv) "agreed amount" or elimination of co-insurance clause; and
- (iii) That any "no other insurance" clause expressly exclude individual Unit Owners' policies from its operation so that the physical damage policy purchased by the Board of Directors shall be deemed primary coverage and any individual Unit Owners' policies shall be deemed excess coverage, and in no event shall the insurance coverage obtained and maintained by the Board of Directors hereunder provide for or be brought into contribution with insurance purchased by individual Unit Owners or their Mortgagees, unless otherwise required by law.
- (C) A duplicate original of the policy of physical damage insurance and all renewals thereof, and any subpolicies or certificates and endorsements issued hereunder, together with proof of payment of premiums, shall be delivered by the insurer to any Mortgagee requesting the same, at least thirty days prior to expiration of the then current policy. Prior to obtaining any policy of physical damage insurance or any renewal thereof the Board of Directors shall obtain an appraisal from an insurance company, or such other source as the Board of Directors may determine, of the then current replacement cost of the Property (exclusive of the land, excavations, foundations and other items normally excluded from such coverage), without deduction for depreciation, for the purpose of determining the amount of physical damage insurance to be secured pursuant to this Section 8.2. All Mortgagees shall be notified promptly of any event giving rise to a claim under such policy arising from damage to the Common Elements in excess of one percent of the then current replacement cost of the Property. The Mortgagee of a Unit shall be notified promptly of any event giving rise to a claim under such policy arising from damage to such Unit.

8.3 Liability Insurance. The Board of Directors shall obtain and maintain comprehensive general liability (including libel, slander, false arrest and invasion of privacy coverage and errors and omissions coverage for directors) and property damage insurance in such limits as the Board of Directors may from time to time determine, insuring each member of the Board of Directors, the Managing Agent, each Unit Owner and the Declarant against any liability to the public or to the Unit Owners (and their invitees, agents and employees) arising out of,

or incident to the ownership and/or use of the Common Elements. Such insurance shall be issued on a comprehensive liability basis and shall contain:

- (A) a cross liability endorsement under which the rights of a named insured under the policy shall not be prejudiced with respect to his action against another named insured;
- (B) hired and non-owner vehicle coverage;
- (C) host liquor liability coverage with respect to events sponsored by the Association;
- (D) deletion of the normal products exclusion with respect to events sponsored by the Association; and
- (E) a "severability of interest" endorsement which shall preclude the insurer from denying liability to a Unit Owner because of negligent acts of the Association or of another Unit Owner. The Board of Directors shall review such limits once a year, but in no event shall such insurance be less than One Million Dollars covering all claims for bodily injury or property damage arising out of one occurrence. Reasonable amounts of "umbrella" liability insurance in excess of the primary limits shall also be obtained in an amount not less than Three Million Dollars.

8.4 Other Insurance. The Board of Directors shall obtain and maintain:

- (A) adequate fidelity coverage to protect against dishonest acts on the part of officers, directors, trustees and employees of the Association and all others who handle, or are responsible for handling, funds of the Association, including the Managing Agent. Such fidelity bonds shall:
 - (i) name the Association as an obligee;
 - (ii) be written in an amount not less than one-half the total annual condominium assessments for the year or the amount required by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, whichever is greatest; and
 - (iii) contain waivers of any defense based upon the exclusion of persons who serve without compensation from any definition of "employee" or similar expression;
- (B) if required by any governmental or quasi-governmental agency, including without limitation the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, flood insurance in accordance with the then applicable regulations of such agency;
- (C) workmen's compensation insurance if and to the extent necessary to meet the requirements of law;

(D) such other insurance as the Board of Directors may determine or as may be requested from time to time by a Majority of the Unit Owners.

8.5 Separate Insurance. Each Unit Owners shall have the right, at his own expense, to obtain insurance of his own Unit and for his own benefit and to obtain insurance coverage upon his personal property and for his personal liability as well as upon any improvements made by him to his Unit under coverage normally called "improvements and betterments coverage"; provided, however, that no Unit Owner shall be entitled to exercise his right to acquire or maintain such insurance coverage so as to decrease the amount which the Board of Directors, on behalf of all Unit Owners, may realize under any insurance policy maintained by the Board of Directors or to cause any insurance coverage maintained by the Board of Directors to be brought into contribution with insurance coverage obtained by a Unit Owner. All such policies shall contain waivers of subrogation. No Unit Owner shall obtain separate insurance policies on the Condominium except as provided in this Section 8.5.

8.6 Insurance Trustee.

(A) All physical damage insurance policies purchased by the Board of Directors shall be for the benefit of the Association, the Unit Owners, their Mortgagees and the Declarant, as their interests may appear, and shall provide that all proceeds of such policies shall be paid in trust to the Board of Directors as "Insurance Trustee" to be applied pursuant to the terms of Article VIII.

(B) The sole duty of the Board of Directors as Insurance Trustee shall be to receive such proceeds as are paid to it and to hold the same in trust for the purposes elsewhere stated in these By-Laws, for the benefit of the insured and their beneficiaries thereunder.

ARTICLE IX.

REPAIR AND RECONSTRUCTION AFTER FIRE OR OTHER CASUALTY

9.1 When Repair and Reconstruction are Required. Except as otherwise provided in Section 9.4, in the event of damage to or destruction of all or any part of the building as a result of fire or other casualty, the Board of Directors shall arrange for and supervise the prompt repair and restoration of the building, including any damaged Units, but not including any furniture, furnishings, fixtures, equipment or other personal property supplied or installed by the Unit Owners in the Units. Notwithstanding the foregoing, each Unit Owner shall have the right to supervise the interior redecorating of his own Unit.

9.2 Procedure for Reconstruction and Repair.

(A) Cost Estimates. Immediately after a fire or other casualty causing damage to any portion of the building, the Board of Directors shall obtain reliable and detailed estimates of the cost of repairing and restoring such portion (including any damaged Units and any floor coverings and kitchen and bathroom fixtures and appliances initially installed by Declarant, but not including any other furniture, furnishings, fixtures or equipment installed by the Unit Owner in the Unit) to a condition as good

as that existing before such casualty. Such costs may also include professional fees and premiums for such bonds as the Board of Directors as Insurance Trustee determines to be necessary.

- (B) Assessments. If the proceeds of insurance are not sufficient to defray such estimated costs of reconstruction and repair, or if upon completion of reconstruction and repair the funds for the payment of the costs thereof are insufficient, the amount necessary to complete such reconstruction and repair may be obtained from the appropriate reserve for replacement funds and/or shall be deemed a Common Expense and a special assessment therefor shall be levied.
- (C) Plans and Specifications. Any such reconstruction or repair shall be substantially in accordance with the original construction of the Property, subject to any modifications required by changes in applicable governmental regulations, and using compatible building materials and technology to the extent feasible.

9.3 Disbursements of Construction Funds.

- (A) The proceeds of insurance collected on account of casualty, and the sums received by the Board of Directors as Insurance Trustee from collections of assessments against Unit Owner on account of such casualty, shall constitute a construction fund which shall be disbursed in payment of the costs of reconstruction and repair in the following manner:
 - (i) If the estimated cost of reconstruction and repair is less than Fifty Thousand Dollars, then the construction fund shall be disbursed in payment of such costs upon order of the Board of Directors; provided, however, that upon request of twenty percent of the Mortgagees (based upon one vote for each Mortgage owned), such fund shall be disbursed pursuant to paragraph (2).
 - (ii) If the estimated cost of reconstruction and repair is Fifty Thousand Dollars or more, then the construction fund shall be disbursed in payment of such costs upon approval of an architect qualified to practice in North Carolina and employed by the Board of Directors as Insurance Trustee to supervise such work, payment to be made from time to time as the work progresses. The architect shall be required to furnish a certificate giving a brief description of the services and materials furnished by various contractors, subcontractors, materialmen, the architect and other persons who have rendered services or furnished materials in connection with the work stating that: (i) the sums requested by them in payment are justly due and owing and that such sums do not exceed the value of the services and materials furnished; (ii) there is no other outstanding indebtedness known to such architect for the services and materials described; and (iii) the cost as estimated by such architect for the work remaining to be done subsequent to the date of such certificate does not exceed the amount of the construction fund remaining after payment of the sum so requested.

- (B) Surplus. The first monies disbursed in payment of the cost of reconstruction and repair shall be from insurance after the payment of all of the costs of the reconstruction and repair for which the fund is established, such balance shall be divided among all Unit Owners in proportion to their Percentage Interests and shall be distributed in accordance with the priority of interests at law or in equity in each Unit.
- (C) Common Elements. When the damage is to both Common Elements and Units, the insurance proceeds shall be applied first to the cost of repairing those portions of the Common Elements which enclose and service the Units, then to the cost of repairing the other Common Elements and thereafter to the cost of repairing the Units.
- (D) Certificate. The Board of Directors as Insurance Trustee shall be entitled to rely upon a certificate executed by the President or Vice President, and the Secretary certifying:
 - (i) whether the damaged Property is required to be reconstructed and repaired;
 - (ii) the name of the payee and the amount to be paid with respect to disbursement from any construction fund whether surplus funds to be distributed are less than the assessments paid by the Unit Owners; and
 - (iii) all other matters concerning the holding and disbursing of any construction fund.

Any such certificate shall be delivered to the Board of Directors as Insurance Trustee promptly after request.

- 9.4 When Reconstruction Is Not Required. In the event the Board of Directors elects not to repair insubstantial damage to the Common Elements, the Board of Directors shall remove all remains of the damaged improvements and restore the site thereof to an acceptable condition compatible with the remainder of the Condominium and the balance of any insurance proceeds received on account of such damage shall be distributed among all Unit Owners in proportion to their respective Percentage Interest. If the Condominium shall be terminated pursuant to the "Act", the net assets of the Condominium together with the net proceeds of insurance policies, if any, shall be divided by the Board of Directors as Insurance Trustee among all Unit Owners in proportion to their respective Percentage Interests, after first paying out of the share of each Unit Owner, to the extent sufficient therefor, the amount of any unpaid liens on his Unit in the order of priority of such liens.

ARTICLE X. MORTGAGES

- 10.1 Notice to Board of Directors. A Unit Owner who mortgages his Unit shall notify the Board of Directors of the name and address of his Mortgagee and shall file a conformed copy of the note and Mortgage with the Board of Directors.

- 10.2 Notice of Default, Casualty or Condemnation. The Board of Directors, when giving notice to any Unit Owner of a default in paying an assessment for Common Expenses or any other default, shall simultaneously send a copy of such notice to the Mortgagee of such Unit. Each Mortgagee shall also be promptly notified of any casualty when required by subsection 8.2(C) hereof, of all actions taken, under Article IX and of any taking in condemnation or by eminent domain and actions of the Association with respect thereto. For purposes of this section only, when notice is to be given to a Mortgagee, the Board of Directors shall also give such notice to the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Veterans Administration, the Federal Housing Administration, the Farmer's Home Administration, the Government National Mortgage Association and any other public or private secondary mortgage market entity participating in purchasing or guarantying Mortgages if the Board of Directors has notice of such participation.

- 10.3 Notice of Amendment of Declaration of By-Laws. The Board of Directors shall give notice to all Mortgagees at least seven days prior to the date on which the Unit Owners, in accordance with the provisions of these By-Laws, materially amend the Condominium Instruments.

- 10.4 Notice of Change in Managing Agent. The Board of Directors shall give notice to all Mortgagees at least thirty days prior to changing the Managing Agent.

- 10.5 Mortgagees' Approvals. Unless at least sixty-six and two-thirds percent of the Mortgagees (based upon one vote for each Mortgage owned) and at least sixty-six and two-thirds percent of the Unit Owners (other than the Declarant) have given their prior written approval, the Association shall not:
 - (A) Change any Unit's Percentage Interest in Common Expenses and Common Profits or in the Common Elements, except as provided in Article II or Article XII of the Declaration;
 - (B) partition, subdivide, abandon, encumber, sell or transfer the Common Elements of the Condominium (except for the granting of utility easements, etc. pursuant to Article II, III and Article IV of the Declaration);
 - (C) by act or omission withdraw the submission of the Property to the Condominium Act, except as provided by Article XI of the Declaration;
 - (D) modify the method of determining and collecting assessments or allocating distributions of casualty insurance proceeds or condemnation awards; or
 - (E) use hazard insurance proceeds for losses to the Condominium for any purpose other than repair, replacement or restoration except as provided in Section 9.4 hereof.

- 10.6 Other Rights of Mortgagees. All Mortgagees or their representatives shall have the right to attend and to speak at meetings of the Association. All such Mortgagees shall have the right to examine the books and records of the Condominium, to receive the annual report filed by

Declarant and to require the submission of annual financial reports and other budgetary information upon written request.

**ARTICLE XI.
COMPLIANCE AND DEFAULT**

- 11.1 Relief. Each Unit Owner shall be governed by, and shall comply with, all of the terms of the Condominium Instruments and the Condominium Act as any of the same may be amended from time to time. In addition to the remedies provided by the "Act", a default by a Unit Owner shall entitle the Association, acting through its Board of Directors or through the Managing Agent, to the following relief:
- (A) Additional Liability. Each Unit Owner shall be liable for the expense of all maintenance, repair or replacement rendered necessary by his act, neglect or carelessness or the act, neglect or carelessness of any member of his family or his employees, agents or licensees, but only to the extent that such expense is not covered by the proceeds of insurance carried by the Board of Directors. Such liability shall include any increase in casualty insurance rates occasioned by use, misuse, occupancy or abandonment of any Unit or its appurtenances. Nothing contained herein, however, shall be construed as modifying any waiver by any insurance company of its rights or subrogation.
 - (B) Costs and Attorneys' Fees. In any proceedings arising out of any alleged default by a Unit Owner, the prevailing party shall be entitled to recover the costs of such proceeding and such reasonable Attorneys' fees as may be determined by the court.
 - (C) No Waiver of Rights. The failure of the Association, the Board Directors or of a Unit Owner to enforce any rights, provision, covenant or condition which may be granted by the Condominium Instruments or the Condominium Act shall not constitute a waiver of the right of the Association, the Board of Directors or the Unit Owner to enforce such right, provision, covenant or condition in the future. All rights, remedies and privileges granted to the Association, the Board of Directors or any Unit Owner pursuant to any term, provision, covenant or condition of the Condominium Instruments or the "Act" shall be deemed to be cumulative and the exercise of any one or more thereof shall not be deemed to constitute an election of remedies, nor shall it preclude the party exercising the same from exercising such other privileges as may be granted to such party the Condominium Instruments or the "Act" or at law or in equity.
 - (D) Interest. In the event of a default by any Unit Owner in paying any sum assessed against his Condominium Unit other than for Common expenses which continues for a period in excess of fifteen days, interest at a rate not to exceed the lower of the maximum permissible interest rate which may be charged by a Mortgagee under a Mortgage at such time or eighteen percent per annum may be imposed in the discretion of the Board of Directors on the principal amount unpaid from the date due until paid.

- (E) Abating and Enjoining Violations by Unit Owners. The violation of any of the Rules and Regulations adopted by the Board of Directors, the breach of any By-Law contained herein or the breach of any provision of the Declaration of the Condominium Act shall give the Board of Directors the right, in addition to any other rights set forth in these By-Laws:
- (i) to enter the Unit in which, or as to which, such violation or breach exists and summarily to abate and remove, at the expense of the defaulting Unit Owner, any structure, thing or condition that may exist therein contrary to the intent and meaning of the provisions hereof, and the Board of Directors shall not hereby be deemed guilty in any manner of trespass; or
 - (ii) to enjoin, abate or remedy by appropriate legal proceedings, either at law or in equity, the continuance of any such breach.
- (F) Legal Proceedings. Failure to comply with any of the terms of the Declaration, these By-Laws and the Rules and Regulations shall be grounds for relief, including without limitation, an action to recover any sums due for money damages, injunctive relief, foreclosure of the lien for payment of all assessments, any other relief provided for in these By-Laws or any combination thereof and any other relief afforded by a court of competent jurisdiction, all of which relief may be sought by the Association, the Board of Directors, the Managing Agent or, if appropriate, by any aggrieved Unit Owner and shall not constitute an election of remedies.
- (G) Acceleration. In any case where an assessment against a Unit Owner is payable in installments, upon a default by such Unit Owner in the timely payment of any two consecutive installments, the maturity of the remaining total of the unpaid installments of such assessments may be accelerated, at the option of the Board of Directors, and the entire balance of the annual assessment may be declared due and payable in full by the service of notice to such effect upon the defaulting Unit Owner and his Mortgagee by the Board of Directors or the Managing Agent.
- (H) Remedies Cumulative. A suit to recover a money judgment for unpaid assessments may be maintained without foreclosing or waiving the lien securing the same, and a foreclosure may be maintained notwithstanding the pendency of any suit to recover a money judgment.
- 11.2 Notices. All notices, demands, bills, statements or other communications under these By-Laws shall be in writing and shall be deemed to have been duly given if delivered personally or sent by United States mail, postage prepaid, or if notification is of a default or lien, sent by registered or certified United States mail, return receipt requested, postage prepaid if to:
- (A) a Unit Owner, at the address which the Unit Owner shall designate in writing and file with the Secretary or, if no such address is designated, at the address of the Unit of such Unit Owner,

- (B) the Association, the Board of Directors or to the Managing Agent, at the principal office of the Managing Agent or at such other address as shall be designated by notice in writing to the Unit Owners pursuant to this Section.

If a Unit is owned by more than one person, each such person who so designates an address in writing to the Secretary shall be entitled to receive all notices hereunder.

**ARTICLE XII.
GENERAL PROVISIONS**

- 12.1 By-Laws. These By-Laws may be amended by the Condominium Association at any duly constituted meeting, provided the same is approved by a majority of the owners; provided, however, that until the expiration of the Declarant Control Period, Sections 4.2, 4.9, 5.3, and 12.1 may not be amended without the prior written consent of the Declarant. All Unit Owners shall be bound by any amendment upon the same being duly passed and set forth in an Amended Declaration duly recorded in the Dare County Registry.
- 12.2 Approval of Mortgages. These By-Laws contain provisions concerning various rights, priorities, remedies and interests of Mortgagees. Such provisions in these By-Laws are to be construed as covenants for the protection of such Mortgagees on which they may rely in making loans secured by Mortgages. Accordingly, no amendment or modifications of these By-Laws impairing or affecting such rights, priorities, remedies or interests of a Mortgagee shall be adopted without the prior written consent of such Mortgagee who shall have thirty days thereafter to file any written objections with the Registered Agent. In the absence of reply by the Mortgagee, consent to any proposed changes will be implied.

Exhibit D

Liens and Encumbrances

1. General service and utility easements affecting the property.
2. Ad valorem taxes for the current year.
3. Condominium Declaration.
4. Construction Loan Deed of Trust, which Deed of Trust will be released at the time of transfer any Unit to a purchaser from the Developer.