

Kirkman

BY-LAWS

OF

CAROLINA COLOURS ASSOCIATION, INC.

ARTICLE I: ASSOCIATION MEMBERS: MEETINGS

Section 1. Members and Voting Rights. Each Lot Owner of a numbered residential subdivision Lot described in the Declaration of Protective Covenants for Carolina Colours, as recorded in Book 2267, Page 270 et seq. (as amended from time to time), Craven County Registry (the "Covenants"), shall be a Member of the Association. The membership of the Association shall consist of all of the Lot Owners of such numbered residential Lots, and Carolina Creek LLC ("Declarant"), the developer of Carolina Colours, as more fully set out within the Covenants and these By-laws. Each Lot Owner, including Declarant, shall be entitled to one vote for each Lot owned by him, but there shall be only one vote allowed per Lot. In the event of multiple Lot Owners of a single Lot, the vote will be determined as set out in North Carolina General Statute Section 47F-3-110, as amended from time to time.

Section 2. Transfer of Membership. The Association shall not issue stock. Membership in the Association may be transferred only as an incident to the transfer of title to a Lot as and in the manner provided for by the Covenants and these By-Laws, and, upon compliance with all of the terms thereof, transfer of membership shall become effective if made in accordance with the foregoing, upon the recordation of a deed of conveyance to the said Lot, or upon the passing of legal ownership if transfer of ownership is accomplished other than by deed of conveyance.

Section 3. Annual Meeting. There shall be an annual meeting of the Members of the Association, to be held on a date established by the Executive Board of the Association. Should no contrary date be established, and notification given, the annual meeting shall be on the first Thursday of the month of December of each year. The location of the meeting shall be at a designated location within Craven County unless the Association shall specify a different location in writing to the Lot Owners. Voting by proxy shall be allowed. A quorum for any Association Member meeting, regular or special, shall be ten percent (10%) of the Lots whether

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the same shall be present in person or by proxy. Notice of the annual meeting shall be given not less than 10 nor more than 60 days in advance of any meeting, and may be given by any method allowed by North Carolina General Statute 47F-3-108, as amended from time to time.

Section 4. Special Meeting. A special meeting of the Members may be called at any time by the President, by a majority of the Executive Board, or by request of 10% of the Members of the Association, and shall be held at such place in Craven County as is designated by the President. Notice shall be given in the same manner and within the same time frame as set out in these By-laws for the annual meeting.

Section 5. Associate Members. In accordance with Article Four of the Covenants, Declarant has reserved the right to require owners of the Commercial Property to become Associate Members of the Association. Associate Members of the Association shall be granted such use rights to Common Elements, and shall pay use fees, as determined by Declarant from time to time. Declarant shall give to the Association written notice of the creation of Associate Memberships, and all parameters relating thereto, prior to the effective date of any such Associate Membership. Such Associate Memberships shall not have voting rights, but rights granted to the Associate Members may not be changed by the Association without consent of Declarant or the then owner of the impacted portion of the Commercial Property, notwithstanding any amendment to the Covenants or these By-laws. The right to create Associate Members may be transferred by Declarant to the Association by written instrument recorded in the office of the register of deeds of Craven County.

## ARTICLE II - DIRECTORS

Section 1. Directors. The number of directors of the Association shall be three (3) until 400 Lots have been sold to third parties (other than third parties with development rights), and shall then (as of the first annual meeting thereafter) increase to five (5) until the expiration of the Declarant Control Period, as set out in Article Eighteen of the Covenants ("Declarant Control Period"). Thereafter, the number of directors of the Association shall be seven (7).

Section 2. Selection. During the Developer Control Period, all directors shall be appointed by Declarant. When the number of directors increases to five, Declarant shall appoint a minimum of one director who shall be a Lot Owner with no business relationship with Declarant. Following the end of the Declarant Control Period, all members of the Executive Board shall be elected by the Members as set out in North Carolina General Statute Section 47F-3-103 as amended from time to time.

Directors (other than directors appointed by Declarant) shall serve staggered terms, and once staggered terms are established, all directors shall be elected for three year terms. Following the termination of the Declarant Control Period, a nominating committee consisting of five members, including the then current Association president and, if still a member, the immediate past president (and no other current Executive Board members) appointed by the Executive Board of the Association shall nominate, at a minimum, the same number of candidates as there are vacancies to be filled, and shall notify all Members as to the nominated candidates in its notice of annual meeting. Each nominee must have consented to stand for election. Additional nominations from the floor will be accepted prior to the election; however, no nomination from the floor will be accepted unless a nominee is in attendance personally at the meeting, or has given in advance of the meeting written agreement to serve if elected.

Following the end of the Declarant Control Period, no more than two members of the Executive Board shall own Lots within the same named neighborhood within Carolina Colours as of the time of their election, in order to provide good community representation on the Board.

Section 3. Removal and Vacancies. Directors elected by the membership at an annual meeting may be removed at any time upon affirmative vote of a majority of the Owners of Lots whose Owners are entitled to vote, with or without cause. In the event of any removal, resignation or vacancy in any of the elected directorships, the remaining members of the Executive Board shall elect a person to serve as a successor to the removed, resigned or vacant office, who shall hold office for the balance of the unexpired term. Declarant shall name the replacement of any director removed, which director was appointed by Declarant. Any director, other than a director appointed by Declarant, shall be

deemed to have resigned as director upon cessation of ownership of a Lot within Carolina Colours, unless said director has contracted to purchase another Lot within Carolina Colours as of the date of sale.

Section 4. Annual Meetings. The annual meeting of the Executive Board shall be held at such place as may be agreed upon by the directors, and shall be held immediately following the adjournment of the annual meeting of the Members of the Association. The Executive Board may establish a schedule of regular meetings to be held at such place as they may designate, in which event no notice shall be required to be sent to the said directors of said regular meetings once said schedule has been adopted. Should such schedule be adopted, it shall be given to all Members by posting notice thereof in the Association community center, or by other method adopted by the Executive Board. The names of the Executive Board members shall be posted in such locations within 10 days following election or appointment.

Section 5. Special Meetings. Special meetings of the Executive Board may be called by the President, and in his absence, by the Vice-President, or by a majority of the members of the Executive Board, by giving three (3) days notice, in writing, by telefax, by email or by telephone call, to all of the members of the Executive Board of the time and place of said meeting, said notice to be served on each member by the Secretary of the Association. By unanimous consent of the Executive Board, a special meeting of the Executive Board may be held without notice at any time or place. All notices of special meetings shall state the purpose of the meeting. Should there be a regularly scheduled time and place for meetings of the Executive Board, notice of such time and place shall be posted in a public area of the Welcome Center, in a public place in the Pavilion (when constructed) and on the Carolina Colours web site. All special meetings shall also be so noticed. Members are welcome to attend Executive Board meetings, but shall not participate unless requested or permitted to do so by the Board.

Section 6. Quorum. A quorum for the transaction of business at any regular or special meeting of the Executive Board shall consist of a majority of the members of the Executive Board. A majority of those present at any annual, regular or special meeting shall have the power to adjourn the meeting to a future

time, provided that written notice of the new time, date and place shall be noticed to or personally served on each director by the Secretary of the Association at least three (3) days prior to the time fixed for said meeting.

Section 7. Compensation. The officers and directors of the Association shall serve without compensation solely for holding such office. Reimbursement of actual expenses incurred on behalf of the Association shall be allowed.

ARTICLE III. OFFICERS: POWERS AND DUTIES

Section 1. The President. He shall be the Chief Executive Officer of the Association; he shall preside at all meetings of the Association Members and of the Executive Board. He shall have executive powers and general supervision over the affairs of the Association and other officers. He shall sign all written contracts of the Association and shall perform and have the powers necessary to perform all duties incident to this office and that may be delegated to him from time to time by the Executive Board.

Section 2. The Vice-President. He shall perform all of the duties of the President in his absence and such other duties as may be required of him from time to time by the Executive Board.

Section 3. The Secretary-Treasurer.

(a) He shall issue notices of all Executive Board meetings and all meetings of the Association Members; he shall attend and keep the minutes of the same; he shall have charge of all of the Association's books, records and papers.

(b) He shall have the custody of the Association's funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Association, and he shall deposit all monies and other valuable effects in the name and to the credit of the Association in such depositories as may be designated from time to time by the Executive Board.

(c) He shall disburse the funds of the Association as may be ordered by the Executive Board in accordance with these By-Laws, making proper vouchers for such disbursements, and shall

render to the President and Executive Board at its next regular meeting, or whenever they may require it, an account of all of his transactions as Treasurer and of the financial condition of the Association.

(d) He shall collect the assessments and shall promptly report the status of collections and of all delinquencies to the Board.

(e) He shall also give status reports to potential transferees, on which reports the transferees may rely. The liability of the Lot Owners shall continue until the transfers have been approved, and all such transferees shall be deemed liable for past due assessments (other than institutional mortgagees or purchasers at institutional mortgage foreclosure sales).

Section 4. The Secretary-Treasurer. The office of the Secretary-Treasurer may be divided between two individuals, one Secretary and one Treasurer.

Section 5. Manager. If the Association elects to hire a manager or a bookkeeper, any or all of the duties set out herein may be transferred to such manager or bookkeeper, upon proper supervision and safeguards by the officers. These duties may only be transferred with the authorization and approval of the Executive Board. However, the Association may not delegate to the manager or the bookkeeper the authority to borrow money or to sign conveyances or evidences of indebtedness.

Section 6. Bond. All officers or other employees who are authorized to sign checks may be bonded in an amount equal to the total anticipated assessment for a full year, and such bond shall be a Common Expense of the Association.

Section 7. Selection of Officers. The officers shall be selected by the Executive Board at the annual meeting of the directors, and may or may not be from the ranks of the directors. Each officer shall serve at the pleasure of the Board.

Section 8. Qualification of Officers. An officer need not be a Lot Owner. At least two of the officers shall be Lot Owners or a named representative of Declarant. No Lot Owner shall be eligible for election as an officer if he is more than 15 days

delinquent in the payment of any dues or assessments. Any officer, other than an officer appointed during the Declarant Control Period, shall be deemed to have resigned as officer upon cessation of ownership of a Lot within Carolina Colours, unless said officer has contracted to purchase another Lot within Carolina Colours as of the date of sale.

Section 9. Committees. The Executive Board may appoint such committees as it determines appropriate and of benefit, and shall appoint all members thereof. All committee members shall serve at the pleasure of the directors, and shall be advisory only.

#### ARTICLE IV. POWERS OF THE ASSOCIATION

The Association, acting through the Board except as may otherwise be required by the Act, shall have the following powers:

Section 1. Covenants. All of the powers specifically set forth in the Covenants and all of the powers incidental thereto.

Section 2. By-Laws. All of the powers specifically set forth in these By-Laws and all of the powers incidental thereto.

Section 3. Miscellaneous Powers. All of the powers set forth in North Carolina General Statute 47-F-3-102 as amended from time to time.

#### ARTICLE V. FINANCE AND ASSESSMENTS.

Section 1. Depository. The funds of the Association shall be deposited in a bank designated by the Executive Board, in an account or accounts for the Association under resolutions approved by the Executive Board, and shall be withdrawn only upon checks and demands for money signed by any Executive Board designated officer(s) or agent(s) of the Association. All promissory notes of the Association shall be signed by any two of the officers of the Association.

Section 2. Fiscal Year. The fiscal year for the Association shall begin on the first day of January of each year; provided, however, that the Executive Board is expressly authorized

to change to a different fiscal year in accordance with the provisions and regulations from time to time prescribed by the Internal Revenue Code of the United States of America at such time as the Executive Board deems it advisable.

Section 3. Determination of Assessments.

(a) As more fully set out in the Covenants and in the Articles of Incorporation for the Association, the Executive Board shall fix and determine from time to time the sum or sums necessary and adequate for the Common Expenses of the Association. Common Expenses shall include expenses for the operation, maintenance, repair, or replacement of the Common Elements, costs of carrying out the powers and duties of the Association, all insurance premiums and expenses relating thereto, taxes until separately assessed, and any other expenses designated as Common Expense from time to time by the Executive Board, and as allowed by the Articles of Incorporation of the Association, the Covenants and Chapter 47F of the North Carolina General Statutes.

The Executive Board is specifically empowered, on behalf of the Association, to make and collect assessments as specified in Article Seven of the Covenants, and to lease, maintain, repair, and replace the Common Elements of the Association. Said assessments shall be payable as directed by the Executive Board and as set out in the Covenants.

(b) When the Executive Board has determined the amount of any assessment, the Secretary-Treasurer of the Association shall mail or present a statement of the assessment to each of the Lot Owners. All assessments shall be payable to the Association in care of the Secretary-Treasurer of the Association, or as otherwise directed from time to time by the Executive Board.

(c) The Executive Board, in preparing its annual budget, is expressly directed to establish a capital improvement and repair fund for utilization by the Association in the maintenance, improvement, and repair of the Common Elements it maintains, to the extent that such fund is established in accordance with the provisions of the Covenants, and is further authorized to maintain operating capital for future expenses as the same are anticipated by the Executive Board.



(d) The Executive Board shall provide a copy of its proposed annual budget of the Association to each member of the Association at least 10 but no more than 60 days prior to a noticed meeting, and the proposed budget shall become final unless at said meeting 80% or more of the Lot Owners attending fail to ratify the budget.

Section 4. Delinquent Assessments. In the event an assessment is not paid within thirty (30) days of the date it is due and payable, the Association, through its Executive Board, may proceed to enforce and collect the said assessment, plus interest at the rate of 12% per annum against the Lot Owner owning the same in any manner allowed by North Carolina law, or as allowed by the Covenants or these By-Laws.

Section 5. Collection and Enforcement. In connection with any assessment, the Association shall have all of the powers, rights, privileges and legal remedies provided for by the Covenants and North Carolina law concerning collection and enforcement. Further, in this connection, each Lot Owner shall be liable for his assessment in the same manner provided for by the Covenants, and shall likewise be responsible for reasonable attorney's fees, interest and costs incurred by the Association incident to the collection of such assessment or enforcement of any lien held by the Association for unpaid assessments. Attorney fees and court costs may only be collected if the Owner fails to pay all sums due within 15 days of receiving notice from the Association of its intent to collect such costs, as required by the Act. Liens against the Lot of the delinquent Owner, and foreclosure thereof, are available to the maximum extent allowed by the Act and other applicable law.

Section 6. Foreclosure. Where the mortgagee of a first mortgage of record or other purchaser of a Lot obtains title to a Lot as a result of foreclosure of a first mortgage (or deed in lieu of foreclosure) such purchaser, including his successors and assigns, shall not be liable for the share of the Common Expenses or assessments by the Association chargeable to such Lot which became due prior to the acquisition of title to such Lot by such purchaser. Such unpaid share shall be deemed to be Common Expenses collectible from all of the Lot Owners, including such purchaser, his successors and assigns.

ARTICLE VI. VIOLATIONS.

In the event of a violation (other than the nonpayment of an assessment) by a Lot Owner of any of the provisions of the Covenants, these By-Laws or any other rules of the Association, the Association, by direction of its Executive Board, may notify the Lot Owner of such by written notice, sent registered or certified mail, return receipt requested, and if such violation shall continue for a period of ten (10) days from the date of such notice, the Association, through its Executive Board, shall have the right to treat such violation as an intentional and inexcusable and material breach of the Covenants, the By-Laws, or the rules of the Association, as the case may be, and the Association may then, at its option, have the following elections: (i) an action at law to recover for damages on behalf of the Association or on behalf of the other Lot Owners; (ii) an action in equity to enforce performance on the part of the Lot Owner; or (iii) an action in equity for such equitable relief as may be necessary under the circumstances, including injunctive relief. The Association may also suspend or impose fines for violations in accordance with the procedures and limitations contained in North Carolina General Statute Section 47F-3-107.1 as amended from time to time. Failure on the part of the Association to maintain such an action at law or in equity within 45 days from date of a written request, signed by a Lot Owner, sent to the Executive Board, shall authorize any Lot Owner to bring an action in equity or suit at law on account of the violation, in the manner provided for by North Carolina law. Any violations which are deemed by the Board to be a hazard to public health may be corrected immediately as an emergency matter.

ARTICLE VII. NOTICE.

Except as otherwise provided herein, whenever notices are required to be sent hereunder, the same shall be sent to the Lot Owners by the U.S. Mail, at their place of residence as listed with the Association, or by any other method authorized by the Act. All notices to the Association shall be sent to the mailing address designated by the Executive Board members as their address for notices. All notices shall be deemed and considered sent when mailed or otherwise transmitted. Any party may reserve the right

to change the place or address of notice to him or her by written notice, in accordance with the terms and provisions of this Article. Each Lot Owner shall keep on record with the Association a current mailing address telephone number and email address and shall notify the Association of any changes therein.

ARTICLE VIII. AMENDMENTS TO BY-LAWS.

These By-Laws may be amended following unanimous approval of the Executive Board, upon vote of the Members representing a forty per cent or more of the Lots; if no such unanimous approval is given by the Executive Board, approval shall be required by Members representing sixty percent or more of the Lots. No amendment changing the rights, duties or obligations of the Declarant or any party having been assigned Declarant Rights shall be adopted without written consent of Declarant or the holder of such rights. Notwithstanding these requirements, the Executive Board may amend the By-laws without Member consent if required to conform the By-laws to a requirement of the Act, or other provisions of law.

ARTICLE IX. RULES.

Section 1. Each Lot Owner shall be responsible for the conduct for all guests and renters.

Section 2. The Association acting by its Executive Board may adopt additional rules relating to utilization of any Lot or any Common Element (including any street), all as more specified in the Covenants. All rules adopted shall be enforceable as though said rule were specifically delineated within these By-Laws or the Covenants.

ARTICLE X. INDEMNIFICATION.

Any person who at any time serves or has served as a director, officer, employee or agent of the Association, or in such capacity at the request of the Association for any other association, partnership, joint venture, trust or other enterprise,

shall have a right to be indemnified by the Association to the fullest extent permitted by law against (a) reasonable expenses, including attorney fees, actually and necessarily incurred by him in connection with any threatened or pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, and whether or not brought by or on behalf of the Association, seeking to hold him liable by reason of the fact that he is or was acting in such capacity, and (b) reasonable payments made by him in satisfaction of any judgment, money decree, fine, penalty, or settlement for which he may become liable in any such action, suit or proceeding.

The Executive Board of the Association shall take all such action as may be necessary and appropriate to authorize the Association to pay the indemnification required by these By-Laws, including without limitation, to the extent needed, making a good faith evaluation of the manner in which the claimant for indemnity acted and of the reasonable amount of indemnity due him and giving notice to, and obtaining approval of, the Members of the Association.

Any person who at any time after the adoption of these By-Laws serves or has served in any of the aforesaid capacities for or on behalf of the Association shall be deemed to be doing or to have done so in reliance upon, and as consideration for, the right of indemnification provided herein. Such right shall inure to the benefit of the legal representatives of any such person and shall not be exclusive of any other rights to which such person may be entitled apart from the provisions of these By-Laws.

The Association shall have authority to assess the Members of the Association, in the manner of a special assessment, to collect monies necessary to carry out its obligations in accordance with the indemnity provisions of this Article. Such assessment may be made, however, without vote of the Members as is required for other special assessments, as the payment of such obligation is an obligatory, and not optional, payment of the Association.

#### ARTICLE XI. NORTH CAROLINA PLANNED COMMUNITY ACT

The provisions of the North Carolina Planned Community Act, Chapter 47-F of the North Carolina General Statutes (the

"Act"), are hereby incorporated by reference, and all of its provisions shall be applicable to the operation and management of the Association, except as specifically altered by a provision of these By-Laws or the Covenants.

ARTICLE XII. MISCELLANEOUS

Section 1. All definitions contained in the Covenants shall be applicable to all capitalized terms within these By-laws.

Section 2. All definitions contained in the North Carolina Planned Community Act are incorporated by reference within these By-Laws.

Section 3. The primary purpose of the Association is to carry out all of its responsibilities under the Covenants. Therefore, to the extent consistent with law and not inconsistent with a specific provision of these By-laws, the Association, acting through its Executive Board, shall have all powers needed to carry out the provisions of the Covenants, and shall have an obligation to do so.

APPROVED AND DECLARED AS BY-LAWS OF  
CAROLINA COLOURS ASSOCIATION, INC.

  
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Secretary (SEAL)

Amended November 28, 2005