

BYLAWS
OF
RICHLAND HILLS HOMEOWNERS ASSOCIATION, INC.

ARTICLE I

NAME AND LOCATION

The name of the corporation is Richland Hills Homeowners Association, Inc. hereinafter referred to as the "Association." The principal office of the corporation initially shall be located in the Wake County, North Carolina, but meetings of Members and meetings of the Executive Board may be held at such places within the State of North Carolina, Counties of Wake and Franklin, as may be designated by the Executive Board.

ARTICLE II

DEFINITIONS

All terms defined in the Declaration of Covenants, Conditions and Restrictions for Richland Hills, recorded, or to be recorded in the Office of the Register of Deeds, Wake County, North Carolina (as from time to time supplemented and/or amended, said document, together with all supplements and amendments thereto, if any, being hereinafter referred to as the "Declaration"), shall have the same meanings when used herein.

ARTICLE III

MEMBERSHIP AND PROPERTY RIGHTS

Section 1. Membership. Membership and voting rights of the Members shall be as provided in Article III of the Declaration.

Section 2. Property Rights. Each Member shall be entitled to the use and enjoyment of the Common Elements as provided in the Declaration. Any Owner may delegate his right of enjoyment to the Common Elements and facilities to the members of his family, to his tenants, or to contract purchasers who reside on the Property.

ARTICLE IV

MEETINGS OF MEMBERS

Section 1. Annual Meetings. The first annual meeting of the Members shall be held within one year from the date of incorporation of the Association, and each subsequent regular

annual meeting of the Members shall be held in the same month of each year thereafter at such time and place as the Executive Board may prescribe.

Section 2. Special Meetings. Special meetings of the Members may be called at any time by the president or by the Executive Board, or upon written request of the Members who are entitled to vote one-fourth (1/4) of all the votes of the Class A Membership of the Association.

Section 3. Notice of Meetings. Except as otherwise provided in Section 3(a) of Article IV of the Declaration, written notice of each meeting of the Members shall be given by, or at the direction of, the secretary or person authorized to call the meeting, by mailing a copy of such notice, postage prepaid, at least fifteen (15) days before such meeting to each Member entitled to vote thereat, addressed to the Member's address last appearing on the books of the Association, or supplied by such Member to the Association for the purpose of notice. Such notice shall specify the place, day and hour of the meeting, and, in the case of a special meeting, the purpose of the meeting. Waiver by a Member in writing of the notice required herein, signed by him before or after such meeting, shall be equivalent to the giving of such notice. The attendance of a Member at a meeting constitutes a waiver by the Member of any objection to lack of notice or defective notice of the meeting unless the Member at the beginning of the meeting objects to holding the meeting or conducting business at the meeting. In addition, a Member's attendance at a meeting constitutes a waiver of any objection to consideration of a particular matter at the meeting that is not within the purpose(s) described in the meeting notice, unless the Member objects to considering the matter before it is voted on.

Section 4. Quorum. The presence at the meeting of Members entitled to cast, or of proxies entitled to cast, one-tenth (1/10) of the votes of each Class of Membership of the Association shall constitute a quorum for any action except as otherwise provided in the Articles of Incorporation, the Declaration, or these Bylaws. If, however, such quorum shall not be present or represented at any meeting, the Members entitled to vote thereat shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum as aforesaid shall be present or be represented.

Section 5. Proxies. At all meetings of Members, each Member may vote in person or by proxy. All proxies shall be in writing and filed with the secretary. Every proxy shall be revocable and shall automatically cease upon conveyance by the Member of his Lot.

ARTICLE V

EXECUTIVE BOARD; SELECTION; TERM OF OFFICE

Section 1. Number. The affairs of this Association shall be managed by an Executive Board, who need not be Members of the Association. The first Executive Board of the Association and all succeeding Executive Boards during the period Declarant retains the right to appoint all of the Executive Board of the Association as set forth in the Declaration shall consist of three (3) persons. Thereafter, each succeeding Executive Board shall consist of no less than three (3) and no more than five (5) persons, as determined by the Executive Board.

Section 2. Term of Office. At the first annual meeting at which the Members are entitled to elect all of the members of the Executive Board, at least two-thirds of the members of the Executive Board shall be elected for a term of two (2) years and the remaining members of the Executive Board shall be elected for a term of one (1) year; and at each annual meeting thereafter the Executive Board members shall be elected for a term of two (2) years.

Section 3. Removal; Filling Vacancies. Any Executive Board member elected by the Members of the Association may be removed from the Board, with or without cause, by a majority vote of the Members of the Association; provided, however, no member of the Executive Board appointed by Declarant may be removed except with the consent of the Declarant. A vacancy in the Executive Board may be filled by the selection by the remaining Executive Board members of a successor, who shall serve until the next Annual Meeting of the Members or until a Special Meeting of the Members is called, at least in part, for the purpose of electing a successor to the Executive Board member filling the vacancy. Notwithstanding the foregoing, during any Period of Declarant Control, a vacancy created by the resignation, death or removal of a member of the Executive Board appointed by the Declarant shall be filled by the appointment of a successor by the Declarant.

Section 4. Compensation. No Executive Board member shall receive compensation for any service he may render to the Association. However, any Executive Board member may be reimbursed for his actual expenses incurred in the performance of his duties.

Section 5. Action Taken Without a Meeting. The Executive Board members shall have the right to take any action in the absence of a meeting which they could take at a meeting by obtaining the written approval of all the Executive Board members. Any action so approved shall have the same effect as though taken at a meeting of the Executive Board.

ARTICLE VI

NOMINATION AND ELECTION OF EXECUTIVE BOARD MEMBERS

Section 1. Appointment. Declarant from time-to-time may appoint the members of Executive Board which it is entitled to appoint in accordance with the provisions of the Declaration by written instrument presented to an Officer of the Association. Each of said individuals so appointed by Declarant shall be deemed and considered for all purposes an Executive Board member, and shall thenceforth perform the offices and duties of such Executive Board member until his or her successor shall have been appointed or elected in accordance with the provisions of these Bylaws. An Executive Board member designated by and selected by Declarant need not be a Member of the Association.

Section 2. Nomination. Nomination for the election of any Executive Board member the Declarant is not entitled to appoint shall be made by a Nominating Committee. Nominations may also be made from the floor at the annual meeting. The Nominating Committee shall consist of a Chairman, who shall be a member of the Executive Board, and two or more

Members of the Association. The Nominating Committee shall be appointed by the Executive Board prior to each annual meeting to serve until the close of the next annual meeting, and such appointment shall be announced at each annual meeting. The Nominating Committee shall make as many nominations for election to the Executive Board as it shall in its discretion determine, but not less than the number of vacancies that are to be filled. Such nominations may be made from among Members or non-members.

Section 3. Election. All Executive Board members whom Declarant is not entitled to designate and select under the terms and provisions of the Declaration shall be elected by a plurality of the votes cast at the Annual Meeting of the Members of the Association. At least a majority of the Executive Board members selected by the Members of the Association shall be Members of the Association or employees, shareholders, members or partners of a corporate, limited liability company or partnership Member of the Association. Election to the Executive Board shall be by secret written ballot. At such election, the Members of the Association or their proxies may cast, in respect to each vacancy, as many votes as they are entitled to exercise under the provisions of the Declaration. The persons receiving the largest number of votes shall be elected. Cumulative voting is not permitted.

Section 4. Declarant's Right to Appoint Executive Board Members. Notwithstanding any other provision of these Bylaws, until the expiration of the Period of Declarant Control, Declarant may, in its discretion, appoint and remove all of the Executive Board members of the Association.

ARTICLE VII

MEETINGS OF EXECUTIVE BOARD MEMBERS

Section 1. Regular Meetings. Regular meetings of the Executive Board shall be held at least annually at such time and place and with such notice as shall be determined by resolution of a majority of the Executive Board members.

Section 2. Special Meetings. Special meetings of the Executive Board shall be held when called by the president of the Association, or by any two Executive Board members, after not less than three (3) days notice to each Executive Board member.

Section 3. Quorum. A majority of the number of Executive Board members shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the Executive Board members present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board.

ARTICLE VIII

POWERS AND DUTIES OF THE EXECUTE BOARD

Section 1. Powers. In addition to the powers enumerated in the Declaration and the Association's Articles of Incorporation, the Executive Board shall have power to:

(a) adopt and publish rules and regulations governing the use of the Common Elements and facilities, and the personal conduct of the Members and their guests thereon, and interpreting the restrictions and covenants applicable to the Property and to establish penalties for the infraction of such rules and regulations.

(b) suspend the voting rights and right to the use of any recreational facilities of a Member during any period in which such Member shall be in default in the payment of any assessment, dues or charge levied by the Association. Such rights may also be suspended after notice and hearing, for a period not to exceed sixty (60) days, for infraction of published rules and regulations.

(c) exercise for the Association all powers, duties and authority vested in or delegated to this Association and not reserved to the Membership by other provisions of these Bylaws, the Articles of Incorporation, the Declaration or the North Carolina Planned Community Act, including, without limitation Section 47F-3-102 thereof.

(d) declare the office of a member of the Executive Board to be vacant in the event such member shall be absent from three (3) consecutive regular meetings of the Executive Board.

(e) contract for the benefit of the Properties and delegate to such management companies and contractors all of the powers and duties of the Association, except those which may be required by the Declaration, the Articles of Incorporation, the North Carolina Planned Community Act or the North Carolina Nonprofit Corporation Act to have approval of the Executive Board or Members of the Association. The undertakings and contracts authorized by the initial Executive Board (including contracts for the management of Richland Hills) shall be binding upon the Association in the same manner as though such undertakings and contracts had been authorized by an Executive Board duly elected by the Membership after the recording of the Declaration, so long as such undertakings and contracts are within the scope of the powers and duties which may be exercised by the Executive Board of the Association in accordance with the Declaration, the Articles of Incorporation and these Bylaws; and provided further that, any undertaking or contract entered into by the Association at a time before the Declarant has transferred control of the Association to Owners shall contain a provision reserving the right of the Association to terminate such undertaking or contract without cause or penalty upon not more than ninety (90) days written notice to the other party(ies) thereto.

(f) employ attorneys, accountants and other persons or firms to represent the Association when deemed necessary.

(g) dedicate or transfer, without Member, mortgagee or agency approvals, non-exclusive easements on, over and upon all or any part of the Common Elements which are not inconsistent with and do not unreasonably interfere with the intended use of the Common Elements and otherwise for such purposes and subject to such conditions as may be agreed to by the Association's Executive Board; provided, however, no such dedication or transfer shall be effective unless an instrument executed on behalf of the Association by its duly authorized officers, agreeing to such dedication or transfer, has been recorded.

(h) appoint and remove at pleasure all officers, agents and employees of the Association, prescribe their duties, fix their compensation, and require of them such security or fidelity bond as it may deem expedient.

Section 2. Duties. It shall be the duty of the Executive Board to:

(a) cause to be kept a complete record of all of its acts and corporate affairs and to present a statement thereof to the Members at the Annual Meeting of the Members, or any special meeting when such statement is requested in writing by the Members entitled to cast at least one-fourth (1/4) of the votes of the Class A Members of the Association.

(b) supervise all officers, agents and employees of the Association, and to see that their duties are properly performed.

(c) in accordance with the terms and provisions of the Declaration, fix the amount of the annual assessment against each Lot, send written notice of each assessment to every Owner subject thereto and, in the discretion of the Executive Board, foreclose the lien against any property for which assessments are not paid within thirty (30) days after due date or to bring an action at law against the Owner personally obligated to pay the same.

(d) issue, or to cause an appropriate officer to issue, upon demand by any person, a certificate setting forth whether or not any assessment has been paid. A reasonable charge may be made by the Board for the issuance of these certificates. If a certificate states an assessment has been paid, such certificate shall be conclusive evidence of such payment.

(e) procure and maintain insurance covering the Association, its Executive Board members, officers, agents and employees and procure and maintain adequate hazard insurance on the real and personal property owned by the Association as follows:

(1) A policy of property insurance in an amount equal to the full replacement value (i.e., 100% of current "replacement cost" excluding land,

foundations, excavations, streets and parking facilities) of the Common Elements owned by the Association (including all building service and related equipment) with an Agreed Amount Endorsement or its equivalent, if available, or an Inflation Guard Endorsement. Such insurance policy must protect against loss or damage by fire and other hazards covered by the standard extended coverage endorsement, and by sprinkler leakage, debris removal, cost of demolition, vandalism, malicious mischief and windstorm. If coverage is available, the policy may include coverage for water damage.

(2) A comprehensive policy of public liability insurance insuring the Association in an amount not less than One Million Dollars (\$1,000,000.00) for claims for personal injury and/or Property damage arising out of a single occurrence, such coverage to include protection against liability for non-owned and hired automobiles and liability for property of others, and, if available, may include coverage for water damage.

(3) If the Association elects to manage its own affairs and directly receive and disburse its own funds (or if, in addition to professional management, the officers or Executive Board members of the Association can and do directly receive or disburse the monies of the Association), the Executive Board shall maintain fidelity coverage against dishonest acts by the Association's officers, Executive Board members, trustees and employees, and all others who are responsible for handling funds of the Association. If the Association employs a professional property management Person or firm to manage the Association and to receive and disburse the monies of the Association, then such professional management person or firm shall have adequate fidelity coverage against dishonest acts and the existence of such coverage shall satisfy the requirement of this subsection (e).

Any such fidelity bonds shall name the Association as an obligee; shall be written in an amount equal to at least 150% of the estimated annual operating expenses of the Association, including reserves; shall contain waivers of any defense based on the exclusion of persons who serve without compensation from any definition of "employee" or similar expression; and shall provide that they may not be canceled or substantially modified (including cancellation for non-payment of premium) without at least thirty (30) days prior written notice to the Association and to any Institutional Lender who has given the notice required under Article VIII, Section 3, of the Declaration.

(4) If any of the insurance described above is not reasonably available, the Association promptly shall cause notice of that fact to be hand-delivered or sent prepaid by United States mail to all Owners.

(5) Insurance policies carried pursuant to this subsection shall provide that (a) each Owner is an insured person under the policy to the extent of the Owner's

insurable interest; (b) the insurer waives its right to subrogation under the policy against any Owner or member of the Owner's household; (c) no act or omission by an Owner, unless acting within the scope of the Owner's authority on behalf of the Association, will preclude recovery under the policy; and (d) if, at the time of a loss under the policy, there is other insurance in the name of the Owner covering the same risk covered by the policy, the Association's policy provides primary insurance.

(f) cause all officers or employees having fiscal responsibilities to be bonded, as it may deem appropriate.

(g) cause the Common Elements to be maintained in accordance with the provisions in the Declaration.

(h) maintain such portions of the Properties and perform such services with respect to the Properties as may be set out in the Declaration.

(i) if and when appropriate pursuant to the terms of the Declaration, cause the exterior of the dwellings to be maintained.

ARTICLE IX

OFFICERS AND THEIR DUTIES

Section 1. Enumeration of Offices. The officers of this Association shall be a president, who shall at all times be members of the Executive Board, a secretary, a treasurer, and such vice presidents(s) or other officers as the Board may from time to time by resolution appoint.

Section 2. Election of Officers. The election of officers shall take place at the first meeting of the Executive Board following each annual meeting of the Members. Notwithstanding the foregoing, until the expiration of the Period of Declarant Control, Declarant may, in its discretion, appoint and remove all of the officers of the Association.

Section 3. Term; Compensation. Each officer of this Association shall be elected annually by the Board and each shall hold office for one (1) year unless he or she shall sooner resign, or shall be removed, or otherwise disqualified to serve. No officer shall receive compensation for services rendered in such capacity to the Association; provided, however, that an officer may be reimbursed for actual expenses incurred in the performance of such duties.

Section 4. Special Appointments. The Board may elect such other officers as the affairs of the Association may require, each of whom shall hold office for such period, have such authority, and perform such duties as the Board may, from time to time, determine.

Section 5. Resignation and Removal. Any officer may be removed from office with or without cause by the Board. Any officer may resign at any time by giving written notice to the

Board, the president or secretary. Such resignation shall take effect on the date of receipt of such notice or at any later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 6. Vacancies. A vacancy in any office may be filled by appointment by the Board. The officer appointed to such vacancy shall serve for the remainder of the term of the officer he replaces.

Section 7. Duties. The duties of the officers are as follows:

(a) President. The president shall preside at all meetings of the Executive Board; shall see that orders and resolutions of the Board are carried out; shall sign all leases, mortgages, deeds and promissory notes.

(b) Vice-President. A vice-president may act in the place and stead of the president in the event of his absence, inability or refusal to act, and shall exercise and discharge such other duties as may be required of him by the Board.

(c) Secretary and Assistant Secretary. The secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the Members; keep the corporate seal of the Association and affix it on all papers requiring said seal; serve notice of meetings of the Board and of the Association, keep appropriate current records showing the Members of the Association together with their addresses, and shall perform such other duties as required by the Board. The assistant secretary shall assist the secretary and act in the place and stead of the secretary in the event of his or her absence.

(d) Treasurer. The treasurer shall receive and deposit in appropriate bank accounts all monies of the Association and shall disburse such funds as directed by resolution of the Executive Board; shall sign all checks and promissory notes of the Association; keep proper books of account; cause an annual audit of the Association books to be made by an independent certified public accountant at the completion of each fiscal year; and shall prepare an annual budget and statement of income and expenditures to be presented to the Membership at its regular annual meeting, and deliver a copy of each to the Members.

ARTICLE X

COMMITTEES

The Executive Board may appoint an Architectural Control Committee, as provided in the Declaration, and a Nominating Committee, as provided in these Bylaws. In addition, the Executive Board shall appoint other committees as deemed appropriate in carrying out its purpose.

ARTICLE XI

BOOKS AND RECORDS

The books, records and papers of the Association shall at all times, during reasonable business hours, be subject to inspection by any Member and any Institutional Lender, as that term is defined in the Declaration. The Declaration, the Articles of Incorporation and the Bylaws of the Association shall be available for inspection by any Member at the principal office of the Association, where copies may be purchased at reasonable cost.

ARTICLE XII

WORKING CAPITAL FUND

In order to insure that the Association will have sufficient monies available to meet its initial operational, the Association shall establish a Working Capital Fund. At the time of the closing of the first sale of each Lot, the purchaser thereof shall pay into such Fund an amount equal to two-twelfths (2/12ths) of the current annual assessment established by the Association. No such payments made into the Working Capital Fund shall be considered advance or current payment of regular assessments. All monies paid into the Working Capital Fund shall be held and administered by the Association in accordance with the terms of the Declaration and these Bylaws.

ARTICLE XIII

ASSESSMENTS

As more fully provided in the Declaration, each Member is obligated to pay to the Association annual and special assessments which are secured by a continuing lien upon the Lot against which the assessment is made.

ARTICLE XIV

CORPORATE SEAL

The Association shall have a seal in circular form having within its circumference the words: Richland Hills Homeowners Association, Inc., North Carolina.

ARTICLE XV

AMENDMENTS

Section 1. These Bylaws may be amended, at a regular or special meeting of the Members, by the vote of a majority of the quorum of Members present and entitled to vote in person or by proxy, except that the Federal Housing Administration of the Department of

Housing and Urban Development ("FHA") or the Department of Veterans Affairs ("VA") shall have the right to veto amendments during any Period of Declarant Control, in the event any FHA-insured or VA-guaranteed loans have been obtained which are secured by first liens upon one or more Lots. In addition, no amendment purporting to revoke or curtail any right herein conferred to Declarant shall be effective unless executed by Declarant and no amendment relating to the maintenance or ownership of any permanent detention or retention pond shall be effective unless reviewed and approved by the governmental office having jurisdiction for watershed protection. Notwithstanding the foregoing, the Declarant, during Declarant's Development Period, and, thereafter, the Executive Board of the Association, may unilaterally amend these Bylaws as requested by the VA, FHA, the Federal National Mortgage Association ("FNMA") or Federal Home Loan Mortgage Corporation so that purchasers of Lots may qualify for loans under such programs.

Section 2. In the case of any conflict between the Articles of Incorporation and the Bylaws, the Articles shall control; in the case of any conflict between the Declaration and these Bylaws, the Declaration shall control; and in the case of any conflict between the Articles and the Declaration, the Declaration shall control.

ARTICLE XVI

MISCELLANEOUS

Section 1. Indemnification.

(a) Any person who at any time is serving or has served as an Executive Board Member, officer, employee or agent of the Association, or who is serving or has served in any capacity at the request of the Association in any other corporation, partnership, joint venture, trust or other enterprise or, at the request of the Association, as a trustee or administrator under any employee benefit plan, shall be indemnified by the Association to the fullest extent permitted by law, including specifically the indemnification provided by the provisions of the North Carolina Nonprofit Corporation Act, including but not limited to indemnification against (i) reasonable expenses, including attorneys' fees actually and necessarily incurred by him in connection with any threatened, 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 (ii) 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 the provisions of this Section 1(a), 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 if required, giving notice to, and obtaining approval by, the Members of the Association.

Any person who at any time serves or has served in any of the aforesaid capacities for, on behalf of, or at the request 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 under this Section 1(a). 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 this Section.

If the North Carolina Nonprofit Corporation Act is subsequently amended to eliminate or further limit the personal liability of executive board members or to authorize corporate action to eliminate or further limit such liability, then the liability of the Executive Board Members of the Association shall, without any further action of the Executive Board or the Members of the Association be eliminated or limited to the fullest extent permitted by the North Carolina Nonprofit Corporation Act as so amended.

(b) The Association shall have the power to purchase and maintain insurance on behalf of any person who is serving or has served as an Executive Board member, officer, employee or agent of the Association, or who is serving or has served in any such capacity at the request of the Association in any other corporation, partnership, joint venture, trust or other enterprise or, at the request of the Association, as a trustee or administrator under any employee benefit plan against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such whether or not the Association would otherwise have the power to indemnify him against such liability.

(c) In addition to the indemnification authorized under the provisions of Sections 1(a) and (b) of this Article and under the provisions of the North Carolina Nonprofit Corporation Act, the Association, acting pursuant to a resolution adopted by its Executive Board, may by contract agree to indemnify any person who at any time is serving or has served as an Executive Board member, officer, employee or agent of the Association, or who is serving or has served in any such capacity at the request of the Association in any other corporation, partnership, joint venture, trust or other enterprise or, at the request of the Association, as a trustee or administrator under any employee benefit plan against liability and reasonable litigation expenses, including attorneys' fees, arising out of his status as such or his activities in any of the foregoing capacities before or after the date on which the contract to indemnify any such person against any liability or litigation expense he may incur in relation to matters as to which he shall have been adjudged in such action suit or proceeding to have acted in bad faith or to have been liable or guilty by reason of willful misconduct in the performance of duty.

(d) Any repeal or modification of the foregoing provisions of this Section 1 shall not affect any rights or obligations then existing with respect to any state of facts then or therefore or thereafter brought based in whole or in part on any such state of facts.

(e) This Section is intended to provide indemnification solely for actions taken by a person acting on behalf of the Association in one or more of the capacities specified. Nothing herein shall be deemed to provide indemnification to any person for any liability that may result from that person's ownership of property within the Properties.

Section 2. Fiscal Year. The fiscal year of the Association shall begin on the first day of January and end on the 31st day of December of every year, except that the first fiscal year shall begin on the date of incorporation.

CERTIFICATION

I, the undersigned, do hereby certify:

THAT I am the duly elected and acting Secretary of Richland Hills Homeowners Association, Inc., a North Carolina corporation, and

THAT the foregoing Bylaws constitute the original Bylaws of said Association, as duly adopted at a meeting of the Executive Board thereof, held on the 24 day of March, 2003.

Becky Gardner
Secretary

(CORPORATE SEAL)