

BY-LAWS
OF
VILLAGE SQUARE HOMEOWNERS' ASSOCIATION, INC.

ARTICLE I.

General Provisions

SECTION 1. - IDENTITY: These are the By-Laws of VILLAGE SQUARE HOMEOWNERS' ASSOCIATION, INC., a nonprofit corporation organized pursuant to the laws of the State of North Carolina; the Articles of Incorporation for which have been recorded in Book _____, at Page _____, of the Office of the Register of Deeds of New Hanover County, North Carolina.

SECTION 2. - INCORPORATION: The provisions of these By-Laws supplement and are enacted pursuant to the provisions of the above referenced Articles of Incorporation and that certain Declaration of Articles of Covenants, Conditions and Restrictions applicable to that residential development more particularly described as follows:

VILLAGE SQUARE TOWNHOMES, all phases, located in New Hanover County, North Carolina, as shown on plat currently or to be recorded in the New Hanover County Registry, made a part hereof, and incorporated herein by reference.

The provisions of said Declaration recorded in Book _____ at Page _____ of the New Hanover County Registry and any amendment of the same are incorporated herein and made a part hereof as if fully set forth.

SECTION 3. - APPLICATION: These By-Laws shall, in conjunction with the above referenced Articles of Incorporation and Declaration, govern the affairs, rights, privileges, duties and obligations of the Association, all owners, the Declarant, all mortgagees, beneficiaries under Deeds of Trust, Lessees and occupants of all lots, their employees and all others who may use or enjoy any of the property known as VILLAGE SQUARE TOWNHOMES, all phases, and the acceptance of a Deed for or conveyance of, or the succeeding to title to, or the entering into a lease for, or the actual occupancy of, or use of a lot, the common elements or any of the improvements thereon by any of the above shall constitute an acceptance by the same of the provisions of these By-Laws, the Rules and Regulations enacted pursuant hereto and the provisions of the herein above referenced Declaration, and an agreement to comply and abide by the same.

SECTION 4. - PRINCIPAL OFFICE: The principal office of the Association and of the Board of Directors shall be located at 2002 Eastwood Road, Suite 106, Wilmington, New Hanover County, North Carolina 28403.

ARTICLE II.

Membership

SECTION 1. - MEMBERSHIP: Each membership shall be appurtenant to and shall not be severed from the fee simple ownership of a lot within the development. The rights, duties, obligations, powers and privileges appurtenant to each membership shall be exercised by the fee simple owner of the lot to which such membership is appurtenant. Any devise, contract for the sale of, Deed, or other means of conveyance of any lot within the development shall be deemed to include the appurtenant membership in the Association. No portion of the rights, privileges, powers, duties or obligations appurtenant to each membership in the Association may be sold, transferred or otherwise disposed of, except as part of a sale,

transfer or other disposition of the lot to which such membership is appurtenant.

SECTION 2. - RECORDS: The Secretary of the Association shall maintain at the principal office of the Association a register of all of the current owners of memberships in the Association and the mailing address of each owner and of all mortgagees or beneficiaries under Deeds of Trust of lots.

SECTION 3. - VOTING RIGHTS: The Association shall have two classes of voting membership:

a. CLASS "A". Class A members shall be all Owners with the exception of the Declarant and shall be entitled to one vote for each lot or unit owned. When more than one person holds an interest in any lot or unit, all such persons shall be members. The vote for such lot or unit shall be exercised as they among themselves determine, but in no event shall more than one (1) vote be cast with respect to any lot or unit.

b. CLASS "B". Class B member(s) shall be the Declarant or Developer and Declarant or Developer shall be entitled to three (3) votes for each lot or unit owned. The Class B membership shall cease and be converted to Class A membership on the happening of either of the following events, whichever occurs earlier:

(1) when the total votes outstanding in Class A membership equals the total votes outstanding in the Class B membership, or

(2) on January 1, 2004.

SECTION 4. - MORTGAGEES AND TRUSTEES UNDER DEEDS OF TRUST: In the event that any lot is conveyed by mortgage or by Deed of Trust, then the rights, duties, obligations, powers and privileges appurtenant to the membership appurtenant to such lot shall be exercised by the owner of the equity in the lot, and not by the mortgagee under any mortgage or the trustee or beneficiary under any Deed of Trust against such lot.

SECTION 5. - ANNUAL MEETINGS: Subject to the provisions of Article VI of these By-Laws, the annual meetings of the Association shall be held on the third Tuesday in October of each succeeding year unless such date shall occur on a legal holiday, in which event, the meeting shall be held on the next succeeding day. The purpose of the annual meeting shall be for the election of the Directors of the Association for the succeeding year and for the transaction of any and all business of the Association as may properly come before the meeting.

SECTION 6. - SPECIAL MEETINGS: It shall be the duty of the President to call a special meeting of the membership if so directed by resolution of the Board of Directors or upon a petition calling for a special meeting presented to the Secretary of the Association and signed by at least one-tenth (1/10) of the owners of memberships in the Association. The notice of any special meeting shall state the time, place and purpose of the meeting. No business shall be transacted at a special meeting except as stated in the notice.

SECTION 7. - NOTICE OF MEETINGS: The Secretary shall mail or personally deliver to each owner of a membership in the Association notice of each annual or special meeting of the membership at least ten (10) days but not more than sixty (60) days prior to such meeting, stating the purpose thereof as well as the time and place where it is to be held. If mailed, said notice shall be mailed to the address which the owner of each membership has designated to the Secretary and maintained by the Secretary on his current

register of owners. The mailing or personal delivery of a notice of a meeting in the manner provided in this section shall be considered service of notice.

SECTION 8. - ADJOURNMENT OF MEETINGS: If any meeting of the membership cannot be held because a quorum has not attended, a majority of the membership present at such meeting, either in person or by proxy, may adjourn the meeting to a time not more than forty-eight (48) hours from the time the original meeting was called.

SECTION 9. - QUORUM: A quorum at all membership meetings shall consist of persons representing and entitled to cast the vote appurtenant to at least one-sixth (1/6) of the memberships in the Association. The acts approved by a majority of the votes present at a meeting at which a quorum is present shall constitute the acts of the membership, except when approval by a greater number of members is required by the Declaration, these By-Laws or by law; but those present at any meeting, though less than a quorum, may adjourn said meeting to a future time.

SECTION 10. - PROXIES: The vote appurtenant to each membership may be cast by the person designated as entitled to cast such vote by proxy. The designation of any such proxy shall be made in writing to the Secretary, and shall be revocable at any time by written notice to the Secretary by the owner of the membership to which said vote is appurtenant. Such proxy shall be valid only for the particular meeting designated in the proxy and must be filed with the Secretary before the appointed time of the meeting or any adjournment of such meeting.

SECTION 11. - PLACE OF MEETINGS: Meetings of the Association's membership shall be held at the principal office of the Association or at such other suitable place convenient to the membership as may be designated by the Board of Directors.

SECTION 12. - ORDER OF BUSINESS: The order of business at all meetings of the Association shall be as follows: (a) roll call; (b) proof of notice of meeting; (c) reading of minutes of preceding meeting; (d) reports of officers; (e) reports of Board of Directors; (f) reports of committees; (g) election of members of the Board of Directors, if necessary; (h) unfinished business; (i) new business; and (j) adjournment.

ARTICLE III.

Board of Directors

The property, affairs and business of the Association shall be managed by the Board of Directors; provided, however, that THE PROVISIONS OF THIS ARTICLE ARE SUBJECT TO THE PROVISIONS OF ARTICLE V OF THESE BY-LAWS.

SECTION 1. - NUMBER, TERM OF OFFICE AND QUALIFICATIONS: The number constituting the Board of Directors shall not be fewer than three (3). Each Director shall continue in office until the annual meeting of the membership held next after his election and until his successor shall have been elected and qualified or until his death or until he shall resign or shall have become disqualified or removed from office. Directors need not be residents of the State of North Carolina nor members of the Association.

SECTION 2. - ELECTION OF DIRECTORS: The election of the Board of Directors shall be conducted in the following manner: (a) election of Directors shall be held at the annual meeting of the membership; (b) nominations for Directorships shall be made from the floor by the membership or by the Board of Directors; (c) the election shall be by written ballot (unless dispensed with by unanimous consent) and by a plurality of the votes cast, each person representing a membership entitled to vote being entitled to

cast one (1) vote for each of as many vacancies as there are Directorships to be filled. There shall be no cumulative voting.

SECTION 3. - REMOVAL OF DIRECTORS: Any Director may be removed by the vote of a majority of the membership of the Association present at a special meeting of the membership called for the consideration of such removal. The vacancy in the Board of Directors so created shall be filled by a majority of the members of the Association present at the same meeting.

SECTION 4. - 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 members of the Board of Directors, but at least two (2) such meetings shall be held during each fiscal year. Notice of the regular meetings of the Board of Directors shall be given to each member of the Board of Directors, by personal delivery, mail or telegraph, at least five (5) business days prior to the day named for such meetings.

SECTION 5. - SPECIAL MEETINGS: Special meetings of the Board of Directors may be called by the President, Secretary or any Board member of the Association on five (5) business days notice to each member of the Board of Directors, given by mail or telegraph, which notice shall state the time, place and purpose of the meeting.

SECTION 6. - WAIVER OF NOTICE: Any member of the Board of Directors may at any time waive notice of any meeting of the Board of Directors, in writing, and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a member of the Board of Directors at any meeting of the Board shall constitute a waiver of notice by him of the time and place thereof. If all of the members of the Board of Directors are present at any meeting of the Board, no notice shall be required and any business may be transacted at such meeting.

SECTION 7. - QUORUM: At all meetings of the Board of Directors a majority of the members thereof shall constitute a quorum for the transaction of business, and the votes of a majority of the members of the Board of Directors present at such 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.

SECTION 8. - COMPENSATION: No member of the Board of Directors shall receive any compensation from the Association for acting as such.

SECTION 9. - JOINDER IN MEETING BY APPROVAL OF MINUTES: The joinder of a Director in the action of a meeting by signing and concurring with the minutes of that meeting shall constitute the presence of such Director at such meeting for the purpose of determining a quorum.

SECTION 10. - PRESIDING OFFICER AT DIRECTORS' MEETINGS: The presiding officer of a Directors' meeting shall be the President of the Association. In the absence of the presiding officer the Directors present shall designate one (1) of their number to preside.

SECTION 11. - ORDER OF BUSINESS AT DIRECTORS' MEETINGS: The order of business at Directors' meetings shall be: (a) the calling of the roll; (b) the proof of due notice of the meeting; (c) reading and disposal of any unapproved minutes; (d) the reports of officers and committees; (e) the election of officers; (f) unfinished business; (g) new business; and (h) adjournment.

SECTION 12. - POWERS AND DUTIES: The Board of Directors shall have the powers and duties necessary for the administration of the affairs of the Association except such powers and duties as by law or by these By-Laws may not be delegated to the Board of Directors by the membership of the Association. The powers and duties to be exercised and performed by the Board of Directors shall include, but shall not be limited to, the following:

a. the operation, care, upkeep and maintenance of the common elements and the improvements thereon;

b. the determination of the amounts required for the operation, maintenance, care and upkeep of the common elements and the improvements thereto, and the amounts required for the general operation of the Association;

c. the levying and collection of the assessments from the membership owners including foreclosure of 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. the employment and dismissal of personnel as necessary for the efficient maintenance of the development and operation of the Association;

e. the adoption and the amendment of rules and regulations governing the operation of the Association and the use and enjoyment of the lots and the common elements;

f. the opening and maintaining of bank accounts on behalf of the Association and designating the signatories required therefor;

g. the purchasing, leasing or otherwise acquiring in the name of the Association or its designee, corporate or otherwise, on behalf of all members of the Association, any lots offered for sale or lease;

h. the purchasing and maintaining of insurance for the common elements and the improvements (including unit exterior) thereto pursuant to the provisions of these By-Laws;

i. the making of repairs, additions and improvements to, or alterations of, the property, and repairs to and restoration of the property, in accordance with the other provisions of these By-Laws, after damage or destruction by fire or other casualty, or as a result of condemnation or eminent domain proceedings;

j. the appointing of committees to be composed of members of the Association to aid in governance of the Association in such numbers and for such specific purposes as the Board may determine necessary and proper;

k. the adoption of a seal for the Association;

l. the enforcing of the obligations of the members of the Association, allocating income and expenses of the Association and doing anything and everything else necessary and proper for the sound management of the Association;

m. the levying of fines or expenses against the members of the Association, allocating income and expenses of the Association;

n. the borrowing of money on behalf of the Association when required in connection with the operation, care, upkeep or maintenance of the common elements and the improvements thereon; PROVIDED, HOWEVER, that (i) except for borrowing funds to purchase insurance, the consent of at least two-thirds (2/3) of each class

of members, obtained at a special called meeting duly called and held for such purpose in accordance with the provisions of these By-Laws, shall be required for the borrowing of any sum in excess of \$2,500.00, (ii) no lien to secure payment of any sum borrowed may be created or on any of the common elements or the improvements thereon without the consent of at least two-thirds (2/3) of each class of members, obtained at a special called meeting duly called and held for such purpose in accordance with the provisions of these By-Laws, and (iii) the owner of any lot will not be liable for payment of any portion of any such loans.

o. the performance of any necessary matters set forth in the Declaration or amendments thereof.

SECTION 13. - LIABILITY OF THE BOARD OF DIRECTORS: The members of the Board of Directors shall not be liable to the Association or any of its members for any mistake of judgment, negligence, or otherwise, except for their own individual willful misconduct or bad faith. The members of the Association shall indemnify and hold harmless each member of the Board of Directors against all contractual liability to others arising out of contracts made by 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 Articles of Incorporation, the Declaration or these By-Laws. It is intended that the members of the Board of Directors shall have no personal liability with respect to any contract made by them on behalf of the Association. It is also intended that the liability of any member of the Association arising out of any contract made by the Board of Directors or out of the indemnity in favor of the members of the Board of Directors shall be limited to such proportions of the total liability thereunder as his interest in the Association bears to the interest of all members of the Association in the Association. Every agreement made by the Board of Directors on behalf of the Association shall provide that the members of the Board of Directors are acting only as agents for the Association and shall have no personal liability thereunder (except as members of the Association), and that each member of the Association's liability thereunder shall be limited to such proportion of the total liability thereunder as his interest in the Association bears to the interest of all members in the Association.

SECTION 14. - FIDELITY BONDS: The Board of Directors may obtain fidelity bonds for all officers and employees of the Association. The premiums on such bonds shall constitute an expense of operating the affairs of the Association.

ARTICLE IV.

Officers

SECTION 1. - DESIGNATION: The principal officers of the Association shall be the President, the Secretary and such Vice Presidents, if any, and a Treasurer, if any, all of whom shall be elected by the Board of Directors. The Board of Directors may appoint an Assistant Treasurer and Assistant Secretary, and such other officers as in its judgment may be necessary. The President must be a member of the Board of Directors. All other officers need not be members of the Board of Directors nor a member of the Association.

SECTION 2. - ELECTION OF OFFICERS: Officers shall be elected annually by the Board of Directors at the organizational meeting of each new Board of Directors and shall hold office at the pleasure of the Board of Directors and until their successors are elected.

SECTION 3. - REMOVAL OF OFFICERS: Upon the affirmative vote of a majority of the members of the Association or members of the Board of Directors, any officer may be removed, either with or without cause; and his 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.

SECTION 4. - PRESIDENT: The President shall be the chief executive officer of the Association. He shall preside at all meetings of the membership and at all meetings of the Board of Directors. He shall have all of the general powers and duties which are incident to the office of President of a corporation organized under the Business Corporation Laws of the State of North Carolina, including, but not limited to, the power to appoint from among the membership any committee which he deems appropriate to assist in the conduct of the affairs of the Association.

SECTION 5. - VICE PRESIDENT: The Vice President shall take the place of the President and perform his duties whenever the President shall be absent or unable to act. If neither the President or 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 upon him by the Board of Directors or by the President.

SECTION 6. - SECRETARY: The Secretary shall keep the minutes of all meetings of the membership and the Board of Directors; he shall have charge of all books, papers, accounts and records of the Board of Directors as the Board of Directors may direct; and he shall, in general, perform all of the duties incident to the office of Secretary of a corporation organized under the Business Corporation laws of the State of North Carolina.

SECTION 7. - TREASURER: The Treasurer shall have the responsibility for Association funds and securities and shall be responsible for keeping full and accurate financial records and books of accounts showing all receipts and disbursements, and for the preparation of all required financial statements. He shall be responsible for the deposit of all monies and other valuable effects in the name of the Board of Directors, in such depositories as may from time to time be designated by the Board of Directors, and he shall, in general, perform all of the duties incident to the office of Treasurer of a corporation organized under the Business Corporation laws of the State of North Carolina.

SECTION 8. - COMPENSATION: No officer shall receive any compensation from the Association for acting as such.

SECTION 9. - EXECUTION OF INSTRUMENTS: All instruments, including, but not limited to, agreements, contracts, Deeds or leases of the Association shall be executed in the name of the Association by the President or Vice President or Secretary or Assistant Secretary of the Association. All checks of the Association are to be executed by such person or persons as may be designated by the Board of Directors.

SECTION 10. - LIABILITY OF THE OFFICERS: The officers shall not be liable to the Association or any of its members for any mistake of judgment, negligence, or otherwise, except for their own individual willful misconduct or bad faith. The members of the Association shall indemnify and hold harmless each officer against all contractual liability to others arising out of contracts made by the officers on behalf of the Association unless any such contract shall have been made in bad faith or contrary to the provisions of the Articles of Incorporation, the Declaration or these By-Laws. It is intended that the officers shall have no personal liability with respect to any contract made by them on behalf of the Association. It is also intended that the liability of any member of the Association arising out of any contract made by the officers or out of the indemnity in favor of the officers shall be limited to such proportions of the total liability thereunder as his interest in the Association bears to the interest of all members of the Association in the Association. Every

agreement made by the officers on behalf of the Association shall provide that the officers are acting only as agents for the Association and shall have no personal liability thereunder (except as members of the Association), and that each member of the Association's liability thereunder shall be limited to such proportion of the total liability thereunder as his interest in the Association bears to the interest of all members in the Association.

ARTICLE V.

Operation of the Association

SECTION 1. - RULE MAKING: The Board of Directors shall promulgate and establish, pursuant to the provisions set out hereinbelow, reasonable rules and regulations governing the use, enjoyment, maintenance, repair of and additions or alterations to the unit exteriors, common elements and the improvements thereon.

Subsection 1.1. - PROCEDURES: The Board of Directors, or a rule making committee specifically appointed by the President, shall formulate reasonable rules and regulations, or amendments or modifications thereto, to be proposed to the membership of the Association. Such proposals may be considered by the membership of the Association for adoption either at the annual meeting of the membership or at a special meeting of the membership called by the President specifically for the consideration of the adoption of such proposals. All such proposals shall be stated in writing and sent to the owners of the memberships in the Association in any notice of the special meeting called for the consideration thereof, or at least ten (10) days prior to the annual meeting of the membership of the Association at which they will be considered. At such meeting such proposed rules and regulations shall be considered new business of the Association. In order to be adopted as rules and regulations, amendments or modifications thereof, of the Association such proposed rules and regulations must receive assent from two-thirds (2/3) of the votes of each class of members of the Association present in person or by proxy at such meeting.

Subsection 1.2. - AMENDMENT, MODIFICATION, ADDITIONS OR REPEAL: In addition to the above, any member of the Association may propose a modification, amendment, addition to or repeal of any and all rules and regulations of the Association by following the procedures set out in ARTICLE VII.

Subsection 1.3. - PROHIBITIONS: No rule or regulation, nor amendment, modification, addition to or repeal of any or all of the rules and regulations of the Association shall discriminate against any lot owner or against any lot or group of lots unless the owners thereof so affected shall consent in writing; nor shall any of the above change any lot, nor shall any of the above increase any owner's share in the common expenses of the Association nor change the voting rights of any member unless the owner of the membership appurtenant to the lot so affected and all record owners of liens thereon shall join in the execution of such rule, regulation, amendment, modification, addition to or repeal of the same.

Subsection 1.4. - RECORDING: A copy of all rules and regulations or amendments, additions, modifications to or repeals of rules and regulations of the Association shall be certified by the President and Secretary of the Association as having been duly adopted by the

Association and shall be effective from the date the same is recorded in the Office of the Register of Deeds of New Hanover County, North Carolina.

SECTION 2. - INSURANCE: The Board of Directors may obtain and maintain such insurance as the Board of Directors may determine is appropriate for the protection of the development, the Association, its Directors, officers and members according to the terms set forth in the Declaration.

SECTION 3. - MAINTENANCE: The Board of Directors shall provide for the upkeep, care, preservation, protection and maintenance of the common elements and the improvements thereon as follows:

a. repair and repave, when necessary, all pavements existing upon the property;

b. repair, reconstruct, replace, maintain and provide for the safety of all pilings, walkways and fences;

c. upkeep, maintain and preserve all grasses, lawns, trees, shrubs, gardens and other vegetation maintained upon the common elements and lots of the development;

d. paint, repair, replace and care for all of the improvements including unit exteriors located upon the lots of the development; and

e. repair, reconstruct, repaint, maintain and keep safe any and all other improvements, of whatever nature, made to the common elements.

Subsection 3.1. - RIGHT OF ACCESS: For the purpose solely of performing all of the above described maintenance, etc., the Association, through its duly authorized agents or employees, shall have the right, after reasonable notice to any and all owners concerned to enter upon any lot and the exterior of any lot at any reasonable hour on any day.

Subsection 3.2. - OWNERS' REPAIRS: All maintenance, repairs and care for the lots excluding exteriors and landscaping shall be performed by the owner(s) of such lots in such need of maintenance at said owner's sole cost and expense. In addition, any maintenance, repair, replacement, etc., to any of the common elements, or any of the improvements thereon caused by the negligence, misuse, neglect or willful act of any owner, his family, tenants, guests or invitees shall be performed by the Association at the sole cost and expense of said owner; said cost and expense therefor to be added to said owner's annual assessment.

Subsection 3.3. - EXPENSE: All maintenance, repair, reconstruction, replacement, etc., as outlined hereinabove, is to be performed by or through the Board of Directors and the cost and expense thereof shall, except as provided in Subsection 3.2. hereinabove, be an annual expense of the Association.

SECTION 4. - FISCAL MANAGEMENT: The Board of Directors shall, from time to time, and at least annually, prepare a budget for the Association, determining the projected annual costs to the Association of performing all of the duties of and fulfilling all of the obligations of the Association. These costs shall include all of the costs incurred by the Association in the performance of those duties and obligations outlined in the Articles of Incorporation, the Declaration of Articles of Covenants, Conditions and Restrictions applicable to the development, and Article III., Section 12., and Article V. of these By-Laws, as well as the costs necessary for the efficient management of the Association (including amounts for an operations reserve and a capital improvements reserve, if deemed necessary by the Board of Direc-

tors). The budget, so prepared, shall be submitted to the membership of the Association for approval (if required as set forth in the Declaration) at the annual meeting of the membership. The proposed budget must be approved by a vote of two-thirds (2/3) of the votes of each class of members of the Association, represented in person or by proxy at such meeting.

Subsection 4.1. - ANNUAL ASSESSMENTS: The Board of Directors shall assess each lot within the development for an equal amount of the projected annual costs to the Association as described hereinabove. The Board of Directors shall cause the Secretary of the Association to provide each member of the Association a statement of the annual assessment against his lot in writing, stating the date payment thereof is due at least thirty (30) days prior to the due date. All assessments shall be due and payable on the date and in such installments, if allowed, as the Board of Directors may determine.

Subsection 4.2. - NATURE AND ENFORCEMENT OF ASSESSMENTS: The nature and enforcement of the collection of assessments is set forth in the Declaration of Articles of Covenants, Conditions and Restrictions pertaining to VILLAGE SQUARE TOWNHOMES, as recorded in the New Hanover County Registry.

Subsection 4.3. - SUBORDINATION: The lien for unpaid assessments provided for hereinabove shall be subordinate to the lien of any first mortgage or first Deed of Trust against any lot.

SECTION 5. - RECORDS AND AUDITS: The Board of Directors shall keep detailed records of the action of the Board of Directors, minutes of the meetings of the Board of Directors, minutes of the meetings of the membership of the Association and financial records and books of account of the Association, including a chronological listing of receipts and expenditures, as well as a separate account for each lot which, among other things, shall contain the amount of each annual assessment, and other assessments, against each lot, the date when due, the amount paid thereon, and the balance remaining unpaid. A written report summarizing all receipts and expenses of the Association shall be rendered by the Board of Directors to all members of the Association at least semi-annually. In addition, an annual report of the receipts and disbursements of the Association shall be rendered by the Board of Directors to all members of the Association who have requested the same, promptly but after the end of each fiscal year. Each member of the Association shall be permitted to examine all of the books and accounts of the Association at reasonable times on business days, but not more than once a month.

SECTION 6. - CONDEMNATION: In the event of a taking in condemnation or by eminent domain of part or all of the property, the award made for such taking shall be payable to the Board of Directors, and the Board of Directors shall disburse the net proceeds of such award in the same manner as they are required to distribute insurance proceeds where there is no repair or restoration of the damage, as provided in these By-Laws.

ARTICLE VI.

Parliamentary Rules

Robert's Rules of Order (latest edition) shall govern the conduct of all Association meetings, not in conflict with the Articles of Incorporation, the Declaration of Articles of Covenants, Conditions and Restrictions, and these By-Laws.

ARTICLE VII.

Amendments

These By-Laws may be amended in the following manner: (a) any member of the Association may propose any amendment or modification to these By-Laws by submitting the same in writing to the President or Board of Directors of the Association, (b) in order to qualify for consideration by the Association, any such amendment or modification must be signed by at least one-fourth (1/4) of the owners of the memberships in the Association (including himself); (c) upon receipt of such proposed amendment or modification, the President or Board of Directors of the Association shall immediately follow the procedures outlined hereinabove under Article II., Section 6., entitled SPECIAL MEETINGS; (d) any such proposed amendment or modification in order to become a part of these By-Laws must be approved by a majority of the votes of each class of members of the Association present in person or by proxy at such meeting.

ARTICLE VIII.

Miscellaneous

SECTION 1. - INVALIDITY: The invalidation of any provision of these By-Laws by any court, agency, or legislature shall in no way affect the validity of any other provision of these By-Laws, and the same shall remain in full force and effect.

SECTION 2. - CAPTIONS: The captions herein used are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope of these By-Laws, or the intent of any provision thereof.

SECTION 3. - GENDER: The use of the masculine gender in these By-Laws shall be deemed to include the feminine gender and the neuter gender and the use of the singular shall be deemed to include the plural, whenever the context so requires.

SECTION 4. - NO WAIVER: No restriction, condition, obligation or provision contained in these By-Laws shall be deemed to have been abrogated or waived by reason of any failure to enforce the same, irrespective of the number of violations or breaches thereof which may occur.

SECTION 5. - FISCAL YEAR: The fiscal year of the Association shall be the calendar year.

SECTION 6. - SEAL: The seal of the Association shall be in such form as shall be approved from time to time by the Board of Directors of the Association.

IN WITNESS WHEREOF, the Directors of the Association do hereby certify that this is a true copy of the duly enacted By-Laws of VILLAGE SQUARE HOMEOWNERS' ASSOCIATION, INC., this _____ day of _____, ~~1994.~~
1995.

Frank D. Carter (SEAL)
DIRECTOR

Ch. L. Smith (SEAL)
DIRECTOR

Thomas G. Smith (SEAL)
DIRECTOR

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C:SUB