

BY-LAWS
OF THE
SOMERSET FARM HOMEOWNERS ASSOCIATION, INC.

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BY-LAWS
OF THE
SOMERSET FARM HOMEOWNERS ASSOCIATION, INC.

ARTICLE I
NAME AND LOCATION

The name of the corporation is the SOMERSET FARM HOMEOWNERS ASSOCIATION, INC. (hereinafter the "Association"). The principal office of the Association shall be located at 2245 North Hills Drive, Suite G, Raleigh, Wake County, North Carolina 27612. The location of the principal office of the Association may be changed by the Board of Directors. Meetings of Members and directors may be held in such places within Wake County, North Carolina, as may be designated by the Board of Directors.

ARTICLE II
DEFINITIONS

Section 1. "Association" shall mean and refer to the SOMERSET FARM HOMEOWNERS ASSOCIATION, INC., a North Carolina non-profit corporation, its successors and assigns.

Section 2. "Declaration" shall mean and refer to that certain Declaration Of Covenants, Conditions And Restrictions For The Somerset Farm Homeowners Association, Inc. (hereinafter the "Declaration"), to be filed for record in the office of the Register of Deeds for Wake County, North Carolina.

Section 3. "Properties" shall mean and refer to the "Existing Property" described in Article II of the Declaration and any additional property annexed pursuant to said Article II.

Section 4. "Lot" shall mean and refer to any plot of land, with delineated boundary lines, shown on any subdivision map of the Properties recorded in the office of the Register of Deeds for Wake County, with the exception of any Common Area owned in fee by the Association and any street rights-of-way shown on such recorded map. In the event that any Lot is increased or decreased in size by recombination or resubdivision through recordation of new subdivision plats, any newly-platted lot shall thereafter constitute a Lot.

Section 5. "Owner" shall mean and refer to the record owner, whether one or more persons or entities, of fee simple title to any Lot which is a part of the Properties, including contract sellers and owners of an equity of redemption, but excluding those having an interest in a Lot solely as security for the performance of an obligation.

Section 6. "Common Area" shall mean and refer to any real property, together with any improvements thereon, owned by the Association, whether in fee, by easement or otherwise, for the common use and benefit of the Owners of Lots within the Properties. The Common Area shall be maintained by the Association or its successors in interest unless dedicated to public use as set forth herein.

Section 7. "Member" shall mean and refer to every person or entity who or which holds membership in the Association.

Section 8. "Declarant" shall mean and refer to SOUTH ATLANTIC RESIDENTIAL PROPERTIES, L.L.C., a North Carolina Limited Liability Company. It shall also mean and refer to any person, firm or corporation to whom or which South Atlantic Residential Properties, L.L.C., shall assign or delegate the rights and obligations of Declarant by an assignment of Declarant's rights recorded in the Wake County Registry.

ARTICLE III MEMBERSHIP AND VOTING RIGHTS

Section 1. Membership. Every Owner of a Lot which is subject to assessment by the Association shall be a Member of the Association. Membership shall be appurtenant to and may not be separated from ownership of any Lot which is subject to assessment.

Section 2. Voting Rights. The voting rights of the membership shall be appurtenant to the ownership of the Lots. There shall be two classes of Lots with respect to voting rights:

(a) Class A Lots. Class A Lots shall be all Lots except Class B Lots as hereinafter defined. Ownership of a Class A Lot shall entitle the Owner(s) of such Lot to one (1) vote. When more than one person owns an interest (other than a leasehold or security interest) in any Lot, all such persons shall be Members and the voting rights appurtenant to their Lot shall be exercised as they, among themselves, determine; but fractional voting shall not be allowed, and in no event shall more than one vote be cast for each Lot.

(b) Class B Lots. Class B Lots shall be all Lots owned by Declarant which have not been converted to Class A Lots as provided in subparagraphs (1) or (2) below. Declarant shall be entitled to three (3) votes for each Class B Lot.

The Class B Lots shall cease to exist and shall be converted to Class A Lots upon the earlier of the following to occur:

(1) When the total number of votes appurtenant to the Class A Lots equals the total number of votes appurtenant to the Class B Lots; provided, however, that all Lots owned by Declarant shall revert to Class B Lots and thereby be reinstated with all rights, privileges, and responsibilities of such Class if, after the conversion of Class B Lots to Class A Lots, additional Lots within the Properties are formed by the recording in the Wake County Public Registry of a new map of Lots as set forth in Article II of the Declaration, thus making Declarant the Owner, by virtue of the newly-recorded Lots and of other Lots owned by Declarant, of a sufficient number of Class B Lots to cast a majority of votes (it being hereby stipulated that the conversion and reconversion shall occur automatically as often as the foregoing facts shall occur); or

(2) on December 31, 2002.

When the Class B Lots cease to exist and are converted to Class A Lots, Declarant shall have the same voting rights as other Owners of Class A Lots; however, such Lots shall continue to be treated as Class B Lots for assessment purposes.

Section 3. Vacant/Leased Residences. If the Owners of any Lot cease to occupy the dwelling constructed thereon as their own personal living quarters or if any dwelling is leased for rental purposes to tenants, the vote as expressed by the Owners of all such vacant and rental units, if voted in a block, shall not be entitled to any weight greater than forty-nine (49%) percent on any matter pending before the Association.

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 the Association. Each subsequent regular annual meeting of the Members shall be held in the same month of each year thereafter on the day, at the hour, and at the place specified in the notice to the Members of the meeting.

Section 2. Special Meetings. Special meetings of the Members may be called at any time by the President or a majority of the members of the Board of Directors. Special meetings of the Members shall be called upon the written request of the Members entitled to one-fourth (1/4) of the votes appurtenant to the Class A Lots.

Section 3. Place of Meetings. Meetings of the Members shall be held at such place, within Wake County, North Carolina, as may be determined by the Board of Directors.

Section 4. Notice of Meetings. Except as otherwise provided in the Articles of Incorporation, the Declaration (in particular, Section 6 of Article V thereof), or these By-Laws, 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, to each Member entitled to vote at such meeting, by hand delivery or by mailing a copy of such notice, postage prepaid, 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. Notice shall be mailed or delivered not less than ten (10) days nor more than thirty (30) days before the date of the meeting. Such notice shall specify the place, day and hour of the meeting, and, in case of a special meeting, the exact purpose of the meeting, including the text of any proposals to be voted on at such special 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.

Section 5. Quorum. Except as otherwise provided in the Articles of Incorporation, the Declaration (in particular, Section 6 of Article V thereof), or these By-Laws, the presence at the meeting of Members or their proxies entitled to cast one-tenth (1/10) of the votes appurtenant to each Class of Lots (Class A and Class B) shall constitute a quorum for any action. If, however, a quorum is not present or represented at any meeting, the Members or their proxies present and 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 shall be present or be represented.

Section 6. 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.

Section 7. Informal Action by Members. Any action which may be taken at a meeting of the Members may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all of the persons who would be entitled to vote upon such action at a meeting and filed with the Secretary of the Association to be kept in the minute book of the Association.

ARTICLE V BOARD OF DIRECTORS

Section 1. General Powers. The business and affairs of the Association shall be managed by a Board of Directors.

Section 2. Number, Term and Qualification. The number of directors of the Association shall be three (3) until the first annual meeting of the Association, at which time the number of Directors shall be increased to five (5). At the first annual meeting, the Members shall elect one director to serve for a term of one year, two directors to serve for a term of two years, and two directors to serve for a term of three years.

At each annual meeting thereafter, the Members shall elect the number of directors needed to fill the vacancy or vacancies created by the director or directors whose term(s) is (are) expiring, to serve for a term of three years (except in the case of the initial election of a director, in which case the term of that director may be shortened to provide for the staggering set forth in this Section, or in the case of the filling of a vacancy, in which case the director elected to fill the vacancy shall be elected for the unexpired term of the director whose vacancy is being filled).

The term of office of the directors shall be staggered so that, except for an election to fill a vacancy or to fill a newly-created directorship, the terms of not less than one (1) nor more than three (3) directors shall expire at each annual meeting. Each director shall hold office until his death, resignation, retirement, removal, disqualification, or his successor is elected and qualified.

The Members of the Association may, by a majority of the votes cast at any duly called annual or special meeting of the Members at which a quorum is present, increase or decrease the number of directors of the Association, provided, however, that the number of directors may not be increased to more than nine (9) nor decreased to less than five (5) without amendment of these By-Laws.

Section 3. Nomination. Nomination for election to the Board of Directors shall be made by a Nominating Committee. Nominations may also be made from the floor at the annual meeting of the Members. The Nominating Committee shall consist of a Chairman, who shall be a member of the Board of Directors, and two or more Members of the Association, who may or may not be members of the Board of Directors. The Nominating Committee shall be appointed by the Board of Directors prior to each annual meeting of the Members, to serve from the close

of such annual meeting 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 Board of Directors 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 4. Election. Except as provided in Section 6 of this Article, the directors shall be elected at the annual meeting of the Members by secret written ballot. In such election, the Members or their proxies may cast, with respect to each vacancy, as many votes as they are entitled under the provisions of Article III of these By-Laws. The person(s) receiving the highest number of votes shall be elected. Cumulative voting is not permitted.

Section 5. Removal. Any director may be removed from the Board, with or without cause, by a majority vote of the Members of the Association.

Section 6. Vacancies. A vacancy occurring in the Board of Directors may be filled by the selection by the remaining directors of a successor who shall serve for the unexpired term of his predecessor. The Members may elect a director at any time to fill any vacancy not filled by the Board of Directors.

Section 7. Compensation. No director shall receive compensation for any service he may render to the Association in the capacity of director. However, any director may be reimbursed for his actual expenses incurred in the performance of his duties.

ARTICLE VI MEETINGS OF DIRECTORS

Section 1. Regular Meetings. Regular meetings of the Board of Directors shall be held at least quarterly and without notice, and at such place and hour as may be fixed from time to time by resolution of the Board. Should the date of such meeting fall upon a legal holiday, then that meeting shall be held at the same time on the next day which is not a legal holiday.

Section 2. Special Meetings. Special meetings of the Board shall be held when called by the President of the or by any two directors, after not less than three (3) to each director.

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

Section 4. Informal Action by Directors. Any action which may be taken at a meeting of the Board of Directors may be taken without a meeting if written consent to the action so taken is signed by all the directors and filed with the minutes of the proceedings of the Board, whether done before or after the action so taken.

Section 5. Chairman. A Chairman of the Board of Directors shall be elected by the directors and shall preside over all Board meetings until the President of the Association is elected. Thereafter, the President shall serve as Chairman. In the event there is a vacancy in the office of the President, a Chairman shall be elected by the Board of Directors to serve until a new President is elected.

ARTICLE VII POWERS AND DUTIES OF THE BOARD OF DIRECTORS

Section 1. Powers. The Board of Directors shall have power to:

(a) adopt and publish rules and regulations governing the use of the Common Area and the personal conduct of the Members and their guests thereon, and to establish penalties for infractions thereof;

(b) suspend a Member's voting rights during any period in which he shall be in default in the payment of any assessment levied by the Association pursuant to Article V of the Declaration. Such rights may also be suspended after such notice and hearing as the Board, in its sole discretion, shall establish, for a period not to exceed 60 days, for infraction of the published rules and regulations of the Association;

(c) exercise for the Association all powers, duties and authority vested in or delegated to the Association and not reserved to the Members by other provisions of these By-Laws, the Articles of Incorporation, or the Declaration;

(d) declare the office of a member of the Board of Directors to be vacant in the even such member shall be absent from three (3) consecutive regular meetings of the Board of Directors without good cause;

(e) employ a manager, an independent contractor, or such other employees as it deems necessary and prescribe their duties, and to contract with a management company to manage the operation of the Association. In the event that a contract is entered into with a management company, such contract must be terminable by the Board of Directors without cause or penalty on not more than ninety (90) days' notice and any management contract made with the Declarant shall be for a period not to exceed three years;

(f) employ attorneys to represent the Association when deemed necessary;

(g) grant easements for the installation and maintenance of sewage, utility or drainage facilities upon, over, under, and across the property owned by the Association without the assent of the Members when such easements are necessary for the convenient use and enjoyment of the Properties; and

(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 Board of Directors to:

(a) cause to be kept a complete record of all its acts and corporate affairs and to present a statement thereof to the Members at the annual meeting of the Members, or at any special meeting when such statement is requested in writing at least five (5) working days before such meeting by Members entitled to at least one-fourth (1/4) of the votes appurtenant to the Class A Lots;

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

(c) as more fully provided in the Declaration, to:

Fix the amount of the annual assessment against each Lot at least thirty (30) days before January 1 of each year;

Send written notice of such assessment to every Owner subject thereto at least fifteen (15) days before January 1 of each year; and

as to any Lot for which an assessment is not paid within thirty (30) days after it becomes due, bring an action at law against the Owner personally obligated to pay the assessment or foreclose the lien against such Lot.

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

(e) procure and maintain adequate liability insurance covering the Association in an amount not less than \$1,000,000.00 and adequate hazard insurance on the real and personal property owned by the Association;

(f) procure and maintain directors' and officers' liability insurance;

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

(h) cause the Common Area and all facilities erected thereon to be maintained;

(i) if it deems necessary or if directed by the Members to do so, establish and maintain an adequate reserve fund for the periodic maintenance, repair and replacement of the improvements constructed on the Common Area;

(j) provide such notices to and obtain such consents from the owners and holders of first deeds of trust on Lots within the Properties as is required by the Declaration or these By-Laws;

(k) pay all ad valorem taxes and public assessments levied against the real and personal property owned by the Association;

(l) hold annual and special meetings and elections for the Board of Directors; and

(m) prepare annual budgets and financial statements for the Association and make same available for inspection by the Members at all reasonable times.

ARTICLE VIII OFFICERS AND THEIR DUTIES

Section 1. Enumeration of Offices. The officers of the Association shall be a President (who shall at all times be a member of the Board of Directors), a Vice President, a Secretary, and a Treasurer, and such other officers as the Board may from time to time by resolution create.

Section 2. Election of Officers. The election of officers shall take place at the first meeting of the Board of Directors following each annual meeting of the Members.

Section 3. Term. The officers of the Association shall be elected annually by the Board and each shall hold office for one (1) year unless he shall sooner resign, be removed, or be otherwise disqualified to serve.

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 the 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 the Board. The person appointed to such vacancy shall serve for the remainder of the term of the officer he replaces.

Section 7. Multiple Offices. The offices of Secretary and Treasurer may be held by the same person. No person shall simultaneously hold more than one of any of the other offices, except in the case of special offices created pursuant to Section 4 of this Article.

Section 8. Duties. The duties of the officers are as follows:

President. The President shall preside at all meetings of the Board of Directors, shall see that orders and resolutions of the Board are carried out, shall sign all leases, promissory notes,

mortgages, deeds and other written instruments, and, in the absence of the Treasurer, shall sign all checks.

(b) Vice President. The Vice President shall 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 duty as may be required of him by the Board.

(c) 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 a seal, serve notice of meetings of the Board and of the Members, keep appropriate current records showing the Members of the Association and their addresses, and perform such other duties as required by the Board.

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

ARTICLE IX COMMITTEES

The Board of Directors of the Association shall appoint a Nominating Committee as provided in Section 3 of Article VI of these By-Laws. The Board of Directors may appoint such other committees as it deems necessary to carry out the affairs of the Association.

ARTICLE X 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 or his agent. The Declaration, the Articles of Incorporation and the By-Laws 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 XI ASSESSMENTS

As more fully provided in Article V of 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 9 in t which the assessment is made. Any assessments which are not paid when due shall be delinquent. Any assessment not paid within ten (10) days after the due date shall bear a late charge in the amount of \$10.00 or such other amount as the Board of Directors may from time to time establish, and, if not paid within thirty (30) days after the due date, shall bear interest from

the due date at the rate of twelve (12%) percent per annum, or the highest rate allowed by law, whichever is less. The Association may bring an action at law against the Owner personally obligated to pay the same or foreclose the lien against the Lot for which such assessment is due. Interest, late payment charges, costs, and reasonable attorney's fees of any such action or foreclosure shall be added to the amount of such assessment. No Owner may waive or otherwise escape liability for the assessments provided for herein by nonuse of the Common Area or by abandonment of his Lot.

ARTICLE XII MISCELLANEOUS

Section 1. Corporate Seal. The Association shall have a seal in a circular form having within its circumference the words: Somerset Farm Homeowners Association, Inc.; and such seal, as impressed in the margin hereof, is hereby adopted as the corporate seal of the Corporation.

Section 2. Amendments. Except as otherwise provided herein, these By-Laws may be amended or repealed and new by-laws adopted at any regular or special meeting of the Board of Directors by the affirmative vote of a majority of the directors then holding office.

These By-Laws may also be amended or repealed and new by-laws adopted at any regular or special meeting of the Members, by the affirmative vote of two-thirds of the votes cast at such "meeting, subject to normal quorum requirements, except that the Federal Housing Administration or the Veterans Administration shall have the right to veto amendments while there is Class B membership.

No by-law adopted or amended by the Members shall be amended or repealed by the Board of Directors, except to such extent that such by-law expressly authorizes its amendment or repeal by the Board of Directors.

Section 3. Conflicts. In the case of any conflict between the Articles of Incorporation and these By-Laws, the Articles shall control. In the case of any conflict between the Declaration and these By-Laws, the Declaration shall control.

Section 4. Indemnification.

(a) Any person who at any time is serving or has served as a director, 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, 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 a settlement for which he may become liable in any such action, suit or proceeding.

The Board of Directors 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 4(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 4(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 4.

If the North Carolina Nonprofit Corporation Act is subsequently amended to eliminate or further limit the personal liability of directors or to authorize corporate action to eliminate or further limit such liability, then the liability of the directors of this Association shall, without any further action of the Board of Directors 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 a director, 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 4(a) and 4(b) of this Article XII and under the provision of the North Carolina Nonprofit Corporation Act, the Association, acting pursuant to a resolution adopted by its Board of Directors, may by contract agree to indemnify any person who at any time is serving or has served as a director, officer, employee or agent of the Association, or in any such capacity at the request of the Association in any other corporation, partnership, joint venture, trust or other enterprises 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 is executed; PROVIDED HOWEVER, that the Association may not agree under any such 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 or willful misconduct in the performance of duty.

(d) Any repeal or modification of the foregoing provisions of this Section 4 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 in his/her capacity as an officer or director of the Association. 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 5. 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.

Section 6. Gender. Any use of the masculine gender in these By-Laws shall be construed to include the feminine gender. Any use of the singular shall be construed, as appropriate, to include the plural.

Adopted as of the 7th day of June, 1995.

Secretary