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DECLARATION OF COVENANTS AND RESTRICTIONS
OF THE DOWNING CREEK COMMUNITY ASSOCIATION, INC.
AND DOWNING CREEK ASSOCIATES,
A NORTH CAROLINA PARTNERSHIP

THIS DECLARATION, made this 22nd day of September, 1987, by DOWNING CREEK COMMUNITY ASSOCIATION, INC., a North Carolina nonprofit corporation, called "Association," and DOWNING CREEK ASSOCIATES, a North Carolina partnership, hereinafter called "Company."

W I T N E S S E T H:

WHEREAS, the Company is the owner of the real property described in Article II of this Declaration and desires to create thereon a planned development community with a balanced representation of residential, commercial, industrial and recreational uses to be known as "Downing Creek;"

WHEREAS, the Company desires to provide for the preservation of value and for the maintenance of common facilities and services and for a vehicle for the administration and enforcement of covenants and restrictions;

WHEREAS, the Company has caused to be incorporated under the laws of the State of North Carolina a nonprofit corporation, Downing Creek Community Association, Inc., for the purpose of exercising the functions aforesaid which are hereinafter more fully set forth;

NOW, THEREFORE, the Company declares that the real property described in Article II, and such additions thereto as may hereinafter be made pursuant to Article II hereof, is and shall be held, transferred, sold, conveyed, given, donated, leased, occupied and used subject to the covenants, restrictions, conditions, easements, charges, assessments ("Assessments"), affirmative obligations and liens (all hereinafter sometimes referred to as "the Covenants") hereinafter set forth.

ARTICLE I
DEFINITIONS

The following words and terms, when used in this Declaration or any supplemental declaration (unless the context shall clearly indicate otherwise), shall have the following meanings:

(a) "Association" shall mean and refer to Downing Creek Community Association, Inc., a North Carolina nonprofit corporation, its successors and assigns.

(b) "Downing Creek" shall mean and refer to the lands in Durham, North Carolina, which are shown as a part of Downing Creek on the Company's Master Plan as revised from time to time.

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(c) "Company" shall mean Downing Creek Associates, a North Carolina partnership, its successors and assigns.

(d) "Developer" shall mean Downing Creek Associates, a North Carolina partnership, its successors and assigns.

(e) "Affiliate" shall mean any corporation more than fifty percent (50%) of the voting stock of which is owned or controlled by the Company or the Developer, and any partnership or joint venture in which the Company or the Developer has more than a fifty percent (50%) equity interest or an interest in fifty percent (50%) or more of the cash flow from such partnership or joint venture.

(f) The "Properties" shall mean and refer to the Existing Property described in Article II hereof, and additions thereto, as are subjected to this Declaration or any Supplementary Declaration under the provisions of Article II hereof.

(g) "Residential Lot" shall mean any subdivided parcel of land located within the Properties for which no building permit has been issued by the appropriate governmental authorities and which parcel is intended for use as a site for a Single Family Detached Dwelling, Single Family "D" Duplex Unit, or Patio Home (or Zero lot line) as shown upon any recorded final subdivision map or any part of the Properties. No parcel shall, however, be classified as a Residential Lot until the first day of the quarter of the year following after all of the following have occurred;

- (1) Recording of a Plat in the Office of the Register of Deeds of Durham County, North Carolina, showing such Residential Lot;
- (2) The Lot has been placed on an "Inventory List" (as defined in Section 3(c) of Article (v) of lots for sale submitted to the Association by the Company, the Company's Affiliates, the Developer or the Developer's Affiliates) in those cases where the Lot is owned by the Company, the Company's Affiliates, the Developer or the Developer's Affiliates.
- (3) The Lot is sufficiently developed to be subject to Assessment, in the sole and uncontrolled discretion of the Board of Directors, as a Residential Lot in those cases where the Lot is owned by any third party other than the Company, the Company's Affiliates, the Developer or the Developer's Affiliates.

(h) "Multiple-Family Tract" shall mean any unimproved parcel of land located within the Properties intended for development of Attached Residential Units, including Townhouses, Condominiums and Apartments as defined and controlled by the applicable zoning for Downing Creek. For the purposes of this Declaration, a parcel of land shall not be deemed a "Multiple-Family Tract" until such time as its exact metes and bounds have been surveyed and a plat thereof identifying or

designating such property for Multiple-Family use is recorded in the Office of the Register of Deeds of Durham County, North Carolina, provided, however, that any property within said parcel of land which also qualifies as an "Exempt Property" as defined in paragraph (n) of this Article I shall not be deemed part of said Multiple-Family Tract for the purposes of calculating Assessments or votes. A Multiple-Family Tract, or portions of said Multiple-Family Tract, shall be deemed to be unimproved until the improvements being constructed thereon are sufficiently complete to be subject to Assessment, in the sole and uncontrolled discretion of the Board of Directors, as improved properties as defined in Section 3(d) of Article V.

(i) "Public or Commercial Site" shall mean any unimproved parcel of land within the Properties, intended for use as a site for improvements designed to accommodate commercial, governmental or business enterprises to serve Residents of Downing Creek and/or the public, including, but not limited to: business and professional office; facilities for the retail sale of goods and services; banks and other financial institutions; social clubs; restaurants; hotels, motels, inns; theaters; lounges; indoor and outdoor recreational facilities; hospitals and medical clinics; laboratories and other research and development facilities; commercial warehouses; transportation terminals or stations; automobile parking facilities, gasoline stations, industrial plants; and residential dwelling units within multi-use public or commercial buildings or facilities; provided, however, that a "Public or Commercial Site" shall not include property upon which improvements are to be built which also qualifies as a Multiple-Family Tract, nor shall it include any property which also qualifies as "Exempt Property" as defined in paragraph (n) of this Article I. For the purposes of this Declaration, a parcel of land shall not be deemed a "Public or Commercial Site" until such time as its exact metes and bounds have been surveyed and a plat thereof identifying or designating such property as a Public or Commercial Site is recorded in the Office of the Register of Deeds of Durham County, North Carolina. A Public or Commercial Site, or portions of said Site, shall be deemed to be unimproved until the improvements being constructed thereon are sufficiently complete to be subject to Assessment, in the sole and uncontrolled discretion of the Board of Directors, as improved properties as defined in Section 3(e) of Article V.

(j) "Development of Unit Parcel" shall mean and refer to any parcel or tract of land within the Properties conveyed by the Company to any third party under Covenants and Restrictions permitting the division of such parcel or tract into smaller land units such as Residential Lots, Multiple-Family Tracts, or Public or Commercial Sites. For the purposes of this Declaration, a parcel of land shall not be deemed a "Development Unit Parcel" until such time as its exact metes and bounds have been surveyed and a plat thereof identifying or designating such property as a development Unit Parcel is recorded in the Office of the Register of Deeds of Durham County, North Carolina; provided, however, that a "Development Unit Parcel" shall not include any property which also qualifies as "Exempt Property" as defined in paragraph (n) of this Article I. A Development Unit Parcel, or portions

thereof, shall remain classified as such until further subdivided and classifiable as a Residential Lot or Lots, Multiple-Family Tract, or Public or Commercial Site pursuant to Section 3(h) of Article V.

(k) "Unsubdivided Land" shall mean and refer to all land in the Existing Property described in Article II hereof, and additions thereto, as are subjected to this Declaration of any supplemental declaration under the provisions of Article II hereof, which has not been subdivided into and classified as Residential Lots, Multiple-Family Tracts, Public or Commercial Sites, or Development Unit Parcels, through metes and bounds subdivision plats recorded in the Office of the Register of Deeds of Durham County, North Carolina; provided, however, that "Unsubdivided Land" shall not include any property which also qualifies as "Exempt Property" in paragraph (n) of this Article I. Unsubdivided Land, or portions thereof, shall remain classified as such until subdivided and classifiable as a Residential Lot or Lots, Multiple-Family Tract, Public or Commercial Site, or Development Unit Parcel pursuant to Section 3 of Article V.

(l) "Family Dwelling Unit" shall mean and refer to any improved property or any property formerly classified a Residential Lot for which a building permit has been issued by the appropriate governmental authorities, which property is located within the Properties and intended for use as a Single Family Dwelling, including without limitation, any Single-Family Detached Dwelling, Single Family "D" Duplex Unit, Patio Home (or Zero lot line), Condominium Unit, Townhouse Unit, Cooperative Apartment Unit or Apartment Unit located within the Properties.

(m) "Public or Commercial Unit" shall mean and include any improved parcel of land within the Properties which is intended and designed to accommodate public, commercial, governmental or business enterprises to serve Residents and/or the public, including, but not limited to, all those enterprises enumerated in subparagraph (i); provided, however, that a "Public or Commercial Unit" shall not include any property which also qualifies as "Exempt Property" as defined in paragraph (n) of this Article I. A parcel of land shall not be deemed to be improved until the improvements being constructed on said parcel are sufficiently complete to be subject to Assessment, in the sole and uncontrolled discretion of the Board of Directors, as improved properties.

(n) "Exempt Property" shall mean and refer to the following classifications of property within the Properties which, for the purposes of this Declaration, shall not be deemed "Multiple-Family Tracts," "Public or Commercial Sites," "Development Unit Parcels," "Unsubdivided Land," or "Public or Commercial Units" and shall be expressly excepted from the definitions thereof:

- (1) All land designated on the Master Plan for intended use, or by actual use if applicable, for (i) indoor and outdoor recreational and community facilities owned and

operated by the Company, the Company's Affiliates, the Developer, the Developer's Affiliates, the Associations and any other homeowners association (hereinafter referred to as "Homeowners Association") organized by the Company or by others with the consent of the Company within the Properties if such Homeowners Association operates such facilities for the private use of its members or the Members of the Association, including, but not limited to, tennis courts, platform tennis courts, handball courts, squash courts, basketball courts, swimming pools, gymnasiums, golf courses, ice skating rinks, and any showers, locker rooms or other club facilities associated with such uses, putting greens, playgrounds, ball fields, spectator viewing pavilions, gazebos, picnic shelters, picnic tables, parks, horseback riding stables, riding arenas, riding trails, walking trails, bike trails, boardwalks, decks, bicycle rental facilities, operating farms and/or animal pastures, wildlife conservancies and feeding stations, nature interpretive areas, amphitheaters, community meeting facilities, and all rest room facilities, parking lots, service buildings and concession-type food services associated with all such uses; and (ii) places of worship; libraries; fire stations and rescue squads; post offices; day care centers, nursery schools, and other schools and instructional centers; nonprofit or charitable community, civil or cultural clubs and institutions; and other similar community facilities which the Board of Directors, in its sole and uncontrolled discretion, may designate as Exempt Properties;

- (2) All lands and any improvements thereon designated in any way as Common Properties or Restricted Common Properties;
- (3) All lands and any improvements thereon committed to the Association through express written notification by the Company to the Association of intent to convey to the Association, including, without limitation, Intended Common Properties and Intended Restricted Common Properties;
- (4) All lands designated on the Master Plan or on recorded plats as Open Space or Private Open Space (hereinafter referred to, respectively, as "Open Space Areas" and "Private Open Space Areas") as defined in the Declaration of Rights, Restrictions, Affirmative Obligations and Conditions Applicable to All Property in Downing Creek, and any improvements thereon which are defined in subparagraph (1) of this paragraph (n);
- (5) Property which is used for the maintenance, operation and service of facilities with Common Properties, Restricted Common Properties, Intended Common Properties, and Intended Restricted Common Properties

and facilities within Open Space Areas which are defined in subparagraph (l) of this paragraph (n);

(6) Property which is used for the maintenance, operation and service of utilities within the Properties;

(o) "Owner" shall mean and refer to the Owner as shown by the Real Estate Records in the Office of the Register of Deeds of Durham County, North Carolina, whether it be one (1) or more persons, firms, associations, corporations or other legal entities of fee simple title to any Residential Lot, Family Dwelling Unit, Multiple-Family Tract, Public or Commercial Site, Public or Commercial Unit, Development Unit Parcel or Unsubdivided Land situated upon the Properties but, notwithstanding any applicable theory of a deed of trust, shall not mean or refer to the mortgages or holder of a deed of trust, its successors or assigns, unless and pursuant to foreclosure or a proceeding or deed in lieu of foreclosure; nor shall the term "Owner" mean or refer to any lessee or Tenant of an Owner. In the event that there is recorded in the Office of the Register of Deeds of Durham County, North Carolina, a long-term contract of sale covering any Lot or Parcel of land within the Properties, the Owner of such Lot or Parcel of land shall be the Purchaser under said contract and not the fee simple title holder. A long-term contract of sale shall be one where the Purchaser is required to make payments for the Property or a period extending beyond nine (9) months from the date of the contract and where the Purchaser does not receive title to the Property until all such payments are made, although the Purchaser is given the use of said Property.

(p) "Tenant" shall mean and refer to the lessee under a written agreement for the rent and hire of a Family Dwelling Unit or Public or Commercial Unit in Downing Creek.

(q) "Resident" shall mean and refer to each Owner and Tenant of a Family Dwelling Unit who resides in Downing Creek.

(r) "Member" shall mean and refer to all those Owners and Tenants who are Members of the Association as defined in Section 1 of Article III.

(s) "Master Plan" shall mean and refer to the drawing which represents the conceptual plan for the future development of Downing Creek. Since the concept of the future development of Downing Creek is subject to continuing revision and change by the Company, present and future references to the "Master Plan" shall be references to the latest revision thereof.

(t) "Intended for Use" shall mean the use intended for various parcels within the Properties as shown on the Master Plan of Downing Creek prepared by the Company as the same may be revised from time to time by the Company, or the use to which any particular parcel of land is restricted by Covenants expressly set forth or incorporated by reference in deeds by which the Company has conveyed the property.

(u) "Common Properties" shall mean and refer to those tracts of land with any improvements thereon which are deeded to the Association and designated in said deed or lease as "Common Properties." The term "Common Properties" shall also include any personal property acquired or leased by the Association if said property is designated a "Common Property." All Common Properties are to be devoted to and intended for the common use and enjoyment of the Members of the Association, their guests and visiting members of the general public (to the extent permitted by the Board of Directors of the Association) subject to the fee schedules and operating rules adopted by the Association. Common Properties shall not include those tracts of land falling within the definition of "Restricted Common Properties" set forth below.

(v) "Restricted Common Properties" shall mean and refer to those tracts of land with any improvements thereon which are deeded to the Association and designated in such deed or lease as "Restricted Common Properties." The term "Restricted Common Properties" shall also include any personal property acquired or leased by the Association if said property is designated a "Restricted Common Property." All Restricted Common Properties are to be devoted to, and intended for the common use and enjoyment of, Type "A" Members of the Association, guests accompanying such Members and the Company, so long as the Company is a Type "A" Member of the Association, with all use of Restricted Common Properties to be subject to the fee schedules and operating rules adopted by the Association. Any lands or personal property which are leased by the Association for use as Restricted Common Properties shall lose their character as Restricted Common Properties upon the expiration of such lease.

(w) "Intended Common Property" shall mean and refer to those tracts of land and any improvements thereon committed to the Association through express written notification by the Company to the Association of intent to convey said property to the Association as a Common Property.

(x) "Intended Restricted Common Property" shall mean and refer to those tracts of land and any improvements thereon committed to the Association through express written notification by the Company to the Association of intent to convey said property to the Association as a Restricted Common Property.

(y) "Neighborhood Area" shall mean and refer to areas in Downing Creek designated as neighborhoods on the Master Plan and subdivision plats recorded in the Office of the Register of Deeds of Durham County, North Carolina.

(z) "Referendum" shall mean and refer to the power of all, or some specific portion of, the Members to vote by mailed ballots on certain actions by the Board of Directors of the Association more particularly set forth herein. In the event fifty-one percent (51%) of the votes actually returned to the Association within the specified time shall be in favor of such action, the Referendum shall be deemed to "pass" and the action voted upon will be deemed to have been authorized by the Members provided, however, that if a higher percentage required to "pass"

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shall be specifically expressed herein, that higher percentage shall control in that instance.

ARTICLE II
EXISTING PROPERTY AND ADDITIONS

Section 1. Existing Property. The real property which is and shall be held, transferred, sold, conveyed, given, donated, leased, occupied and used subject to these Covenants is described as follows:

All that tract or parcel of land, situate, lying and being in Durham County, North Carolina, which is more particularly described in Exhibit "A" attached hereto and by specific reference made a part hereof.

All of the real property hereinabove described shall sometimes be referred to herein as the "Existing Property." The Company intends to develop the Existing Property in accordance with a Master Plan prepared in its Planning Department and placed on display in its Reception and Sales Office and other areas. The Company reserves the right to review and modify the Master Plan at its sole option from time to time based upon its continuing research and design program. The Master Plan shall not bind the Company, its successors and assigns to adhere to the Master Plan in the development of the land shown thereon. Subject to its right to modify the Master Plan as stated herein, the Company shall convey to the Association certain properties designated on the Master Plan as properties which may be transferred to the Association as, in the reasonable exercise of its discretion, it so chooses without regard to the relative location of such portions or sections within the overall plan. Once conveyed to the Association, these properties shall become Common Properties or Restricted Common Properties, as the case may be. The Company shall not be required to follow any predetermined sequence or order of improvements and development, and it may bring within the plan of these Covenants additional lands and develop the same before completing the development of the Existing Property. Other than as stated in this paragraph, the Company shall have full power to add to, subtract from or make changes in the Master Plan regardless of the fact that such actions may later affect the relative maximum potential voting strength of the various types of membership of the Association.

Section 2. Additions to Existing Property. Additional lands may become subject to, but not limited to, this Declaration in the following manner;

(a) Additions. During the period of development, which shall by definition extend from date to January 1, 1992, the Company, its successors and assigns shall have the right, without further consent of the Association, to bring within the plan and operation of this Declaration additional property. Such property may be subjected to this Declaration as one parcel or as several smaller parcels at different times. The additions of such property authorized under this paragraph may increase the cumulative maximum number of Residential Lots and Family Dwelling

Units authorized in the Properties and, therefore, may alter the relative maximum potential voting strength of the various types of membership of the Association.

The additions authorized under this and the succeeding subsection shall be made by recording a Supplementary Declaration of Covenants and Restrictions with respect to the additional property which shall extend the operation and effect of the Covenants and Restrictions of this Declaration to such additional property. The Supplementary Declaration of the Covenants and Restrictions contained in this Declaration as may be necessary or convenient, in the sole judgment of the Company, to reflect the different character, if any, of the added properties and as are not inconsistent with the plan of this Declaration, but such modifications shall have no effect upon the Property described in Section 1, Article II above, or upon any other additions to the Properties.

(b) Other Additions. Upon approval in writing of the Association pursuant to a simple majority of the vote of those present at a duly called meeting, the owner of any property who desires to add such property to the plan and operation of this Declaration and to subject it to the jurisdiction of the Association, shall record a Supplementary Declaration of Covenants and Restrictions with respect to the additional property which shall extend the operation and effect of the Covenants and Restrictions of this Declaration to such additional property. The additions of such property authorized under this paragraph may increase the cumulative maximum number of Residential Lots and Family Dwelling Units authorized in the Properties, and therefore, may alter the relative maximum potential voting strength of the various types of membership of the Association.

The Supplementary Declaration may contain such complementary additions and/or modifications of the Covenants and Restrictions contained in this Declaration as may be necessary or convenient for the inclusion to Downing Creek of the added properties and as are not inconsistent with the plan of this Declaration, but such modifications shall have no effect upon the Property described in Section 1, Article II above, or upon any other additions to the Properties.

(c) Mergers. Upon merger or consolidation of the Association with another association, as provided for in the By-Laws of the Association, its property rights and obligations may, by operation of law, be transferred to another surviving or consolidated association, or in the alternative, the properties, rights and obligations of another association may, by operation of law, be added to the properties of the Association as a surviving corporation pursuant to a merger. The surviving or consolidated association may administer the Existing property, together with the Covenants and Restrictions established upon any other properties, as one plan. No merger or consolidation shall effect any revocation, within the Existing Property, including, without limitation, the maximum limits on Assessments and dues of

the Association, or any other matter substantially affecting the interests of Members of the Association.

(d) Additional lands which become subject to this Declaration under the provisions of this Section II may in the future be referred to as a part of Downing Creek. Also, the name "Downing Creek" may be used by the Company to refer to other nearby properties not subject to this Declaration.

ARTICLE III
MEMBERSHIP AND VOTING RIGHTS IN THE ASSOCIATION

Section 1. Membership The Company shall be a Member of the Association, and a creditor who acquires title to the Properties or any portion thereof pursuant to foreclosure or any other proceeding or deed in lieu of foreclosure, shall be a Member of the Association. Every Owner and Tenant, unless otherwise specified, shall be a Member of the Association. Every Owner shall be required to submit the name(s) of his Tenant(s) and the duration of their tenancy to the Secretary of the Association. The Association may issue to each Member a membership card which shall expire upon termination of a Tenant's Lease or upon sale by an Owner of his property in Downing Creek. Tenants of Public or Commercial Units and Owners or Tenants who are exempt from the payment of Assessments shall not be Members of the Association unless otherwise specified herein.

Section 2. Voting Rights. The Association shall have four (4) types of regular voting membership and one (1) type of special voting membership which provides the Company, its successors and assigns with the power to elect a portion of the Board of Directors:

TYPE "A": Type "A" Members shall be all Owners including the Company, its successors and assigns of Residential Lots and Family Dwelling Units. A Type "A" Member shall be entitled to two (2) votes for each Family Dwelling Unit which he owns.

TYPE "B": Type "B" Members shall be all those Owners including the Company, its successors and assigns of platted Public or Commercial Sites and Multiple-Family Tracts. A Type "B" Member shall be entitled to one (1) vote for each One Hundred Dollars (\$100.00) in Annual Assessments paid to the Association. In computing the number of votes to which a Type "B" Member shall be entitled, the amount of the Assessment paid shall be rounded to the nearest One Hundred Dollars (\$100.00).

TYPE "C": Type "C" Members shall be all those Owners including the Company, its successors and assigns of Public or Commercial Units. A Type "C" Member shall be entitled to one (1) vote for each One Hundred Dollars (\$100.00) in Annual Assessments paid to the Association. In computing the number of votes to which a Type "C" Member shall be entitled, the amount of the Assessment paid shall be rounded to the nearest One Hundred Dollars (\$100.00).

TYPE "D": Type "D" Members shall include all those Owners including the Company, its successors and assigns of Unsubdivided Lands and Development Unit Parcels held and intended for future development by the Company or a third party. A Type "D" Member shall be entitled to one (1) vote for each One Hundred Dollars (\$100.00) of Annual Assessments paid to the Association. In computing the number of votes to which a Type "D" member shall be entitled, the amount of the Assessment paid shall be rounded to the nearest One Hundred Dollars (\$100.00).

TYPE "E": The Type "E" Member shall be the Company its successors and assigns. The Type "E" Member shall be entitled to elect a portion of the Board of Directors as set out in Section 4 of this Article III.

Payment of Special Assessments shall not entitle type "A," "B," "C" and "D" Members to additional votes.

When any property entitling the Owner to membership as a Type "A," "B," "C" and "D" Member of the Association is owned of record in the name of two (2) or more persons or entities, whether fiduciaries, joint tenants, tenants in common, tenants in partnership or in any other manner of joint or common ownership, or if two (2) or more persons or entities have the same fiduciary relationship respecting the same property, then unless the instrument or order appointing them or creating the tenancy otherwise directs and it or a copy thereof is filed with the Secretary of the Association, their acts with respect to voting shall have the following effect:

- (1) If only one (1) votes, in person or by proxy, his act shall bind all;
- (2) If more than one (1) votes, in person or by proxy, the act of the majority so voting shall bind all;
- (3) If more than one (1) votes, in person or by proxy, but the vote is evenly split on any particular matter, each fraction shall be entitled to its proportionate share of the vote or votes;
- (4) If the instrument or order filed with the Secretary of the Association shows that any such Tenancy is held in unequal interest, a majority or even split under subparagraphs (2) and (3) immediately above shall be a majority or even split in interest in the property to which the vote(s) is attributable;
- (5) The principles of this paragraph shall apply, insofar as possible, to execution of proxies, waivers, consents or objections, and for the purpose of ascertaining the presence of a quorum.

The voting rights of any Owner may be assigned by said Owner to his lessee; provided, however, that the Owner may not assign to such lessee any vote or votes not attributable to the property actually leased by such lessee. The Type "A," "B," "C" and "D"

Members are sometimes hereinafter collectively referred to as the "Members."

Section 3. Governance. The Association shall be governed by a Board of Directors consisting of three (3), five (5), seven (7) or nine (9) Members. The number and term of such Directors is to be determined in accordance with the provisions of the Articles of Incorporation of the Association. Except as may be otherwise provided in the Articles of Incorporation, there shall be two (2) classes of Directors: Class I Directors shall be elected by the Type "A," "B," "C" and "D" Members, and Class II Directors shall be elected by the Type "E" Members.

Section 4. Election of The Board of Directors. (a) Each Member of Type "A," "B," "C" and "D" Membership classes shall be entitled to as many votes as equals the total number of votes he is entitled to based on his Ownership of or Tenancy in one (1) or more of the various classifications of property as computed by the formula set out hereinabove in Section 2 hereof. Each Member may cast the total number of votes to which he is entitled for each vacancy to be filled by a Class I Director. Cumulative voting shall not be allowed. Members, except the Type "E" Membership, are divided into classes for the purpose of computing voting rights and shall not vote as a class.

The Type "A," "B," "C" and "D" Members shall elect the Class I Director(s), and the Type "E" Member shall elect the Class II Director(s) according to the following formula:

- (1) The number of Class I Directors shall be determined by (a) dividing (i) the number of Residential Lots and Family Dwelling Units owned by Type "A" Members by (ii) the cumulative maximum number of Residential Lots and Family Dwelling Units authorized by the Zoning Ordinances of the County of Durham as of July 28, 1986 and (b) then multiplying the resulting quotient by the total number of Directors, and (c) rounding the result to the nearest whole number, e.g., 1.49 = 1 and 1.50 = 2.
- (2) The number of Class II Directors shall be determined by subtracting the number of Class I Directors from the total number of Directors. The Class II Directors shall be elected by the Type "E" Member.
- (3) For the purposes of this formula, the number of Residential Lots and Family Dwelling Units owned by Type "A" Members and the cumulative maximum number of Residential Lots and Family Dwelling Units authorized in the Properties shall be determined by the Board of directors as of the date on which notice of the meeting of the Members at which the Board of directors is to be elected is mailed.

Section 5. Members to Have Power of Referendum in Certain Instances. Where specifically provided for herein, the Members, or some specific portion thereof, shall have the power to approve

or reject certain actions proposed to be taken by the Association by Referendum. In the event fifty-one percent (51%) or more of the votes actually returned to the Association within the specified time shall be in favor of such action, the Referendum shall be deemed to "pass" and the action voted upon will be deemed to have been authorized by the Members; provided, however, that if a higher percentage vote required to "pass" shall be specifically expressed herein, that higher percentage shall control in that instance. The Board of Directors may not undertake any action requiring a Referendum without complying with the provisions herefor. At any time that the Type "A," "B," "C" and "D" members have the ability to elect a majority of the Board of Directors, the Members may require a Referendum on any action of the Board of Directors by presenting to the Secretary of the Board, within thirty (30) days of the taking of such action or ratification by the Board of its intent to take such action, a petition signed by not less than twenty-five (25%) percent of the Members.

Section 6. Quorum Required for Any Action Authorized at Regular or Special Meetings of the Association. The quorum required for any action which is subject to a vote of the members at an open meeting of the Association (as distinguished from the Referendum) shall be as follows:

(a) The first time a meeting of the Members of the Association is called to vote on (i) an increase in the Maximum Regular Annual Assessment greater than that provided for by subparagraph (c) of Section 3 of Article V hereof, (ii) a Special Assessment as provided for by Section 4 of Article V hereof, (iii) the gift or sale of any parcel of land and improvements thereon designated as a Common Property or Restricted Common Property as provided for by subparagraph (f) of Section 4 of Article IV hereof, (iv) an Amendment to this Declaration as provided for by Section 2 of Article VIII hereof, or (v) the termination of this Declaration as provided by Section 1 of Article VIII hereof, the presence at the meeting of Members or proxies entitled to cast sixty percent (60%) of the total vote of the Membership required for such action shall constitute a quorum.

(b) The first time a meeting of the Members of the Association is called to vote on any action proposed to be taken by the Association, other than that described in subparagraph (a) above, the presence at the meeting of Members or proxies entitled to cast thirty percent (30%) of the total vote of the Membership required for such action shall constitute a quorum.

If the required quorum is not present at any meeting described in subparagraphs (a) or (b) above, with the exception of any meeting called to vote on the termination of this Declaration described in subparagraph (a)(v) above, another meeting or meetings may be called subject to the giving of proper notice, and the required quorum at such subsequent meeting or meetings shall be one-half (1/2) of the required quorum at the preceding meeting.

Unless otherwise provided, any reference hereafter to "votes cast at a duly called meeting" shall be construed to be subject to the quorum requirements established by this Article III, Section 6, and any other requirements for such "duly called meeting" which may be established by the By-Laws of the Association. For the purpose of this section, "proper notice" shall be deemed to be given when given each Member not less than thirty (30) days prior to the date of the meeting at which any proposed action is to be considered.

Section 7. Proxies. All Members of the Association may vote and transact business at any meeting of the Association by proxy authorized in writing, provided, however, that Proxies shall not be required for any action which is subject to a Referendum, in which case the votes of all the Members polled shall be made by specifically provided ballots mailed or delivered to the Association.

Section 8. Ballots by Mail. When required by the Board of Directors, there shall be sent with notices of regular or special meetings of the Association, a statement of certain motions to be introduced for vote of the Members and a ballot on which each Member may vote for or against each such motion. Each ballot which is presented at such meeting shall be counted in calculating the quorum requirements set out in Section 6 of this Article III. Provided, however, such ballots shall not be counted in determining whether a quorum is present to vote upon motions not appearing on the ballot.

ARTICLE IV PROPERTY RIGHTS IN THE COMMON PROPERTIES:

Section 1. Members' Easements of Enjoyment in Common Properties. Subject to the provisions of these Covenants, the rules and regulations of the Association, any fees or charges established by the Association, every Type "A," "B," "C," "D" and "E" Member and every guest of such Type "A" shall have an easement of enjoyment in and to the Common Properties, and such easement shall be appurtenant to and shall pass with the title of every Residential Lot, Family Dwelling Unit, Multiple-Family Tract, Public or Commercial Site, Public or Commercial Unit, Development Unit Parcel, or any Unsubdivided Land.

Employees of the Type "E" Member and its agent, the Developer, shall have access to and enjoyment of the Common Properties subject to rules and regulations and user fees established by the Board of Directors.

A Member's spouse, parent and children who reside with such Member in Downing Creek shall have the same easement of enjoyment hereunder as a Member.

In those instances where a Residential Lot or Family Dwelling Unit or other property in Downing Creek is owned or occupied as a Tenant by two (2) or more persons (who do not have the relationship of spouse, parent or child, one to the other) or by a corporation, such joint Owners and corporations shall

annually appoint one (1) person as the "Primary Member." Such Primary Member shall have the same easement of enjoyment in the Common Properties as Members who own or occupy such property singularly. The remaining Joint Members and Tenants and the principal officers of such corporation shall be entitled to an easement of enjoyment in the Common Properties by:

- (1) Paying the same use fees as guest of Members, or
- (2) By paying to the Association annually an amount equal to the Annual Assessment charged against the property in which he or she owns a fractional interest or occupies as a Tenant. The payment of such amount shall not entitle such remaining Joint Members, Tenants or principal officers to additional votes in the Association.

As determined in the sole and uncontrolled discretion of the Board of Directors, certain Owners of Exempt Properties, and certain Tenants and guests, may have access to and enjoyment of the Common Properties subject to rules and regulations and user fees established by the Board of Directors.

Section 2. Members' Easements of Enjoyment in Restricted Common Properties. Subject to the provisions of these covenants, the rules and regulations of the Association, and any fees or charges established by the Association, every Type "A" Member, but not Type "B," "C," or "D" Member, shall have a right and easement of enjoyment in and to the Restricted Common Properties and such easement shall be appurtenant to and shall pass with the title of every Residential Lot and Family Dwelling Unit. By an affirmative vote of seventy-five percent (75%) of the votes cast at a meeting of the Association called for the purpose of voting on such proposal, a "Restricted Common Property" may be changed into an unrestricted "Common Property." Employees of the Company and its agent, the Developer, shall access to and enjoyment of the Restricted Common Properties so long as the Company is a Type "A" Member, subject to rules, regulations and user fees established by the Board of Directors.

Section 3. Title to Common Properties and Restricted Common Properties. (a) The Company covenants for itself, its successors and assigns that it shall convey by deed to the Association, at no cost to the Association and subject to (i) all restrictions and limitations imposed by the Declaration of Rights, Restrictions, Affirmative Obligations and Conditions Applicable to All Property in Downing Creek, including, without limitation, all rights of easement and rights of entry reserved unto the Company, its successors and assigns, in said Declaration, (ii) all other restrictions and limitations of record at the time of conveyance, (iii) any restrictions, limitations conditions, or determinations as to the purposes and uses of the conveyed properties as stipulated in said deed, (iv) any commitments by the Company to construct certain improvements thereon as stipulated in said deed, those Intended Common Properties and Intended Restricted Common Properties described in Section 5 of this Article IV hereof, and any other parcels of

land and any improvements thereon now or hereafter designated as Intended Common Properties or Intended Restricted Common Properties; and, upon such conveyance, such parcels of land and any improvements thereon shall become Common Properties or Restricted Common Properties as designated in said deed.

(b) The Association shall not refuse the designation of any parcel of land or any improvements thereon as an Intended Common Property or Intended Restricted Common Property through the express written notification by the Company to the Association of intent to convey said property to the Association, and, further, the Association shall not refuse to accept any Intended Common Property or Intended Restricted Common Property as a Common Property or Restricted Common Property at such time as the Company, in its sole and uncontrolled discretion, deems it advisable to convey such property to the Association.

(c) Upon conveyance of any parcel of land and any improvements thereon as a Common Property or Restricted Common Property by the Company or any other third party, the Association shall immediately become responsible for all maintenance and operation of said property, and for such additional construction of improvements thereon as may be authorized by the Association's Board of Directors subject to the Declaration of Rights, Restrictions, Affirmative Obligations and Conditions Applicable to All Property in Downing Creek. It is the purpose of this provision to provide that the Association shall be responsible for all maintenance and operation of all Common Properties, Restricted Common Properties.

(d) Notwithstanding anything in the foregoing to the contrary, the Company reserves unto itself, its successors and assigns, and agents, the right to enter upon any Intended Common Property, Intended Restricted Common Property, Common Property or Restricted Common Property for the purpose of constructing indoor and outdoor recreational and community facilities thereon, including, but not limited to, tennis courts, platform tennis courts, handball courts, squash courts, basketball courts, swimming pools, gymnasiums, golf courses, ice skating rinks, and any showers, locker rooms or other club facilities associated with such uses, putting greens, playgrounds, ball fields, spectator viewing pavilions, gazebos, picnic shelters, picnic tables, parks, horseback riding stables, riding arenas, riding trails, walking trails, bike trails, boardwalks, decks, boating facilities, boat rental facilities, boat and trailer storage facilities, bicycle rental facilities, operating farms and/or animal pastures, wildlife conservancies and feeding stations, nature interpretive areas, amphitheaters, community meeting facilities, and all rest room facilities, parking lots, service buildings and concession-type food services associated with all such uses. The provisions of this paragraph shall in no way create any obligation on the part of the Company to construct any such facilities on said properties.

(e) Natural areas, trail areas, etc. may be designated from time to time as Intended Common Properties or Intended Restricted Common Properties and shall be conveyed in large or small parcels

from time to time after the Company has completed the surveying and plotting of all adjacent subdivisions for Single Family Detached, Single Family "D" Duplex, and Patio Home (or Zero Lot Line) housing areas, Multiple-Family Tracts, Public or Commercial Sites or Development Unit Parcels which may abut such natural areas, trail areas, etc. Written notification designating such properties as Intended Common Properties or Intended Restricted Common Properties will not normally show metes and bounds and, in any event, the metes and bounds as shown on the recorded plat and deed to the Association shall govern.

Section 4. Extent of Members' Easements. The rights and easements of enjoyment created hereby shall be subject to the following:

(a) The right of the Association, in accordance with its By-Laws, to borrow money from the Company or any lender for the purpose of improving and/or maintaining the Common Properties and Restricted Common Properties, and providing services authorized herein and in aid thereof to mortgage said properties provided, however, that any such mortgage is with the prior consent of two-thirds (2/3) of the Members of the Association, which consent may be evidenced by petition or by an affirmative vote of two-thirds (2/3) of the Members voting in person or by proxy at a duly called meeting of the Association; and

(b) The right of the Association to take such steps as are reasonably necessary to protect the above-described properties against foreclosure; and

(c) the right of the Association to suspend the rights and easements of enjoyment of any Member or Tenant or guest of any Member for any period during which the payment of any Assessment against property owned by such Member remains delinquent, and for any period not to exceed sixty (60) days for any infraction of its published rules and regulations, it being understood that any suspension for either non-payment of any Assessment or a breach of the rules and regulations of the Association shall not constitute a waiver or discharge of the Member's obligation to pay the Assessment, and provided that the Association shall not suspend the right to use any roads belonging to the Association subject to the rules, regulations and fees, if any, established by the Association for such use.

(d) The right of the Association to charge reasonable admission and other fees for the use of recreational facilities and services on the Common Properties and Restricted Common Properties.

(e) The right of the Company or the Association by its Board of Directors to dedicate or transfer to any public or private utility, utility or drainage easements on any part of the Common Properties and Restricted Common Properties.

(f) The right of the Association to give or sell all or any part of the Common Properties and Restricted Common Properties, including leasehold interests, subject to (i) the limitations and

restrictions imposed by the Declaration of Rights, Restrictions, Affirmative Obligations and Conditions Applicable to All Property in Downing Creek and (ii) all other restrictions and limitations of record at the time of conveyance, to any public agency, authority, public service district, utility or private concern for such purposes and subject to such conditions as may be agreed to by the Members, provided, however, that no such gift or sale of any parcel of land and improvements thereon, or determination as to the purposes or as to the conditions thereof, shall be effective unless such dedication, transfers and determinations as to purposes and conditions shall be authorized by the affirmative vote of three-fourths (3/4) of the votes cast at a duly called meeting of the Association, subject to the quorum requirements established by Article III, Section 6(a), and unless written notice of the meeting and of the proposed agreement and action thereunder is sent to every Member of the Association at least thirty (30) days prior to such meeting. A true copy of such resolution together with a certificate of the results of the vote taken thereon shall be made and acknowledged by the President or Vice President and Secretary or Assistant Secretary of the Association and such certificate shall be annexed to any instrument of dedication or transfer of any parcel of land and improvements thereon affecting the Common Properties or Restricted Common Properties prior to the recording hereof. Such certificates shall be conclusive evidence of authorization by the membership. The gift or sale of any personal property owned by the Association shall be determined by the Board of Directors in its sole and uncontrolled discretion.

Section 5. The Company covenants for itself, its successors and assigns, that, prior to January 1, 1999, it shall convey by deed to the Association, at no cost to the Association, and subject to all the restrictions and limitations of the various Articles of this Declaration and any other restrictions and limitations of record, certain properties designated as Intended Common Properties and Intended Restricted Common Properties as listed below:

(a) Intended Common Properties. There shall be conveyed to the Association by the Company:

(1) At least forty (40) acres of Open Space or Private Open Space designated as such on the Company's Master Plan or subdivision plats recorded in the Office of the Register of Deeds of Durham County, North Carolina.

(2) Any other parcel of land and any improvements thereon designated from date until January 1, 1999 as an Intended Common Property through express written notification by the Company to the Association of intent to convey said property to the Association.

(b) Intended Restricted Common Properties. There shall be conveyed to the Association by the Company any parcel of land and any improvements thereon designated from date until January 1, 1999, as an Intended Restricted Common Property through express

written notification by the Company to the Association of intent to convey said property to the Association.

ARTICLE V

COVENANTS FOR ASSESSMENTS

Section 1. Creation of the Lien and Personal Obligation of Assessments. The Company covenants, and each Owner of any Residential Lot, Family Dwelling Unit, Multiple-Family Tract, Public or Commercial Site, Public or Commercial Unit, Development Unit Parcel, or Unsubdivided Land located within the Properties, whether or not it shall be so expressed in any such deed or other conveyance, shall be deemed to covenant and agree to all the terms and provisions of this Declaration and to pay to the Association: (a) Annual Assessments or charges; and (b) Special Assessments or charges for the purposes set forth in this Article, such Assessments to be fixed, established and collected from time to time as hereinafter provided. The Annual and Special Assessments, together with such interest thereon and costs of collection thereof including a reasonable attorney's fee as hereinafter provided, shall be a charge and continuing lien on the real property and improvements thereon against which each such Assessment is made. Each such Assessment, together with such interest thereon and cost of collection thereof including a reasonable attorney's fee as hereinafter provided, shall also be the personal obligation of the person who was the Owner of such real property at the time when the Assessment first became due and payable. In the case of co-ownership of a Residential Lot, Family Dwelling Unit, Multiple-Family Tract, Public or Commercial Site, Public or Commercial Unit, Development Unit Parcel or any Unsubdivided Land, all of such co-owners shall be jointly and severally liable for the entire amount of the Assessment.

Section 2. Purpose of Assessments. The Annual Assessments levied by the Association shall be used exclusively for the improvement, maintenance, enhancement, enlargement and operation of the Common Properties, Restricted Common Properties, Intended Common Properties and Intended Restricted Common Properties and to provide services which the Association is authorized to provide.

Section 3. Application of "Maximum Assessment." The Maximum Regular Annual Assessment, as set forth in the schedule hereinbelow, and as is automatically increased annually pursuant to the provisions of subparagraph (c) below, shall be levied by the Association. If, however, the Board of Directors of the Association, by majority vote, determines that the important and essential functions of the Association may be properly funded by an Assessment less than the Maximum Regular Annual Assessment, it may levy such lesser Assessment; provided, however, so long as the company is engaged in the development of properties which are subject to the terms of this Declaration, the Association may not reduce Assessments below those set out in Section 3(a) immediately below without the written consent of the Company. The levy of an Assessment less than the Maximum Regular Annual Assessment in one (1) year shall not affect the Board's right to

levy an Annual Assessment equal to the Maximum Regular Annual Assessment in subsequent years.

If the Board of Directors shall levy less than the Maximum Regular Annual Assessment for any Assessment year, such Annual Assessment shall automatically be ten percent (10%) greater than the Annual Assessment levied for the previous Assessment year; provided, however, that the Board of Directors may, by majority vote, levy a greater or lesser Assessment if it shall determine that the important and essential functions of the Association will be properly funded by such greater or lesser Assessment.

If the Board of Directors shall levy less than the Maximum Regular Annual Assessment for any Assessment year and, thereafter, during such Assessment year, determine that the important and essential functions of the Association cannot be funded by such lesser Assessment, the Board may, by majority vote, levy a Supplemental Assessment. In no event shall the sum of the initial and Supplemental Assessments for that year exceed the applicable Maximum Regular Annual Assessment.

If the Board of Directors, by majority vote, determines that the important and essential functions of the Association will not be properly funded in any one (1) year, or in any one (1) year and all subsequent years, it may request approval of a specified increase in the Maximum Regular Annual Assessment for either one (1) year only, or for that one (1) year and all subsequent years, by the vote of the Members at a duly called meeting of the Association, subject to the quorum requirements established by Article III, Section 6(a). Should the Members vote in favor of such proposed increase, it shall be deemed approved and may be levied by the Board. An increase in the Maximum Regular Annual Assessment for one (1) year only pursuant to the provisions hereof shall in no way affect the Maximum Regular Annual Assessment for subsequent years or increases thereof in subsequent years.

(a) From and after April 1, 1987, the Maximum Regular Annual Assessment shall be the sums calculated in accordance with the following Assessment Schedule, as shall be automatically increased in each instance by an inflation adjuster as set forth in Section 3(a) of this Article, and as may be increased pursuant to the provisions set forth immediately above:

<u>Property Type</u>	<u>Maximum Regular Annual Assessment</u>
Residential Lots	150.00 per Lot
Family Dwelling Units	150.00 per Unit
Public or Commercial Units	.10 per square foot of floor space, but in no event less than 192.00 for each unit
Public or Commercial Sites	192.00 per acre; prorated

for part of an acre, but
in no event less than
192.00 for each site or
Tract

Development Unit Parcels
Unsubdivided Land

10.00 per acre

(b) Property shall not be classified for purposes of these Covenants and these Annual Assessments as a Residential Lot until the first day of the quarter of the year following after all of the following have occurred:

- (1) Recording of a Plat in the Office of the Register of Deeds of Durham County, North Carolina, showing such Residential Lot;
- (2) Approval by the Office of Interstate Land Sales Registration or successor agencies permitting such Residential Lot to be offered for sale in those cases where registration is required by law.
- (3) The Lot has been placed on an "Inventory List" of lots for sale submitted to the Association by the Company, the Company's Affiliates, the Developer or the Developer's Affiliates in those cases where the Lot is owned by the Company, the Company's Affiliates, the Developer or the Developer's Affiliates.
- (4) The Lot is sufficiently developed to be subject to Assessment, in the sole and uncontrolled discretion of the Board of Directors, as a Residential Lot in those cases where the Lot is owned by any third party other than the Company, the Company's Affiliates, the Developer or the Developer's Affiliates.

A Residential Lot shall be deemed to be unimproved and shall not be deemed a Family Dwelling Unit until such time as a building permit has been issued for said property by the appropriate governmental authorities.

(c) "Inventory List" as used in these Covenants shall mean and refer to a listing of those Residential Lots owned by the Company, the Company's Affiliates, the Developer or the Developer's Affiliates which are available for sale to the purchasers, and which listing is submitted to the Association. The Company reserves for itself, its Affiliates, the Developer and the Developer's Affiliates the right to make additions and deletions from this listing one (1) day prior to the commencement of each quarter.

(d) Property shall not be classified for the purposes of these Covenants and these Annual Assessments as a Multiple-Family Tract until such time as its exact metes and bounds have been surveyed and a plat thereof identifying or designating such property for Multiple-Family use is recorded in the Office of the Register of Deeds of Durham County, North Carolina; provided,

however, that any property within said parcel of land which also qualifies as an Exempt Property as defined in Section 12 of this Article V shall not be deemed part of said Multiple-Family Tract for the purposes of calculating Assessments or votes. A Multiple-Family Tract, or portions of said Multiple-Family Tract, shall be deemed to be unimproved until the improvements being constructed thereon are sufficiently complete to be subject to Assessment, in the sole and uncontrolled discretion of the Board of Directors, as improved properties.

In those cases where the improvements intended on a Multiple-Family Tract include more than one building or structure containing Attached Residential Units, each building or structure shall be deemed to be unimproved until the building or structure is sufficiently complete to be subject to Assessment, in the sole and uncontrolled discretion of the Board of Directors, as improved properties, at which time each and every Attached Residential Unit within said building or structure shall be deemed a Family Dwelling Unit for the purpose of Assessments, and, in addition, the remaining number of acres to be assessed as a Multiple-Family Tract shall be calculated by (a) dividing (i) the number of Family Dwelling Units on the property by (ii) the maximum number of Family Dwelling Units authorized by the Company in the original Multiple-Family Tract, and (b) then multiplying the resulting quotient by the total number of acres in the original Multiple-Family Tract.

At such time as all Attached Residential Units intended for development on a Multiple-Family Tract have been classified as Family Dwelling Units, and the Owner of said Multiple-Family Tract is able to warrant to the satisfaction of the Board of Directors that (i) no further development of Attached Residential Units shall take place upon said Tract, and (ii) any remaining unimproved acres within said Tract shall not be sold to any other third party for the further development of Attached Residential Units, such Owner may apply to the Board of Directors for the release of any remaining unimproved acres within said Tract from the classification of a Multiple-Family Tract, and the Board of Directors may, in its sole and uncontrolled discretion, grant such release.

(e) Property shall not be classified for the purposes of these Covenants and these Annual Assessments as a Public or Commercial Site until such time as its exact metes and bounds have been surveyed and a plat thereof identifying or designating such property as a Public or Commercial Site is recorded in the Office of the Register of Deeds of Durham County, North Carolina; provided, however, that any property within said parcel of land, which also qualifies as an Exempt Property as defined in Section 12 of this Article V, shall not be deemed part of said Public or Commercial Site for the purposes of calculating Assessments or votes. A Public or Commercial Site, or portions of said Site, shall be deemed to be unimproved until the improvements being constructed thereon are sufficiently complete to be subject to Assessment, in the sole and uncontrolled discretion of the Board of Directors, as improved properties.

In those cases where the improvements intended on a Public or Commercial Site include more than one building, structure or phase or group of improved units, each building, structure or phase or group of units shall be deemed to be unimproved until the building, structure or phase or group of units is sufficiently complete to be subject to Assessment, in the sole and uncontrolled discretion of the Board of directors, as improved properties, at which time each and every improved unit within said building, structure or phase or group of units shall be deemed a Public or Commercial Unit or a Family Dwelling Unit for the purpose of Assessments, and in addition, the remaining number of acres to be assessed as a Public or Commercial Site shall be calculated by subtracting (i) the number of acres within the Site upon which Public or Commercial Units and Family Dwelling Units have actually been developed from (ii) the total number of acres in the original Public or Commercial Site.

At such time as all public or commercial buildings and facilities and all residential dwelling units intended for development on a Public or Commercial Site have been classified as Public or Commercial Units or Family Dwelling Units, and the Owner of said Public or Commercial Site is able to warrant to the satisfaction of the Board of Directors that (i) no further development of Public or Commercial Units or Family Dwelling Units shall take place on said Site, and (ii) any remaining unimproved acres within said Site shall not be sold to any other third party for further development of Public or Commercial Units or Family Dwelling Units, then said owner may apply to the Board of Directors for the release of any remaining acres in said Site from the classification of a Public or Commercial Site, and the Board of Directors may, in its sole and uncontrolled discretion, grant such release.

(f) Property shall not be classified for purposes of these Covenants and these Annual Assessments as a Family Dwelling Unit until (i) the improvements being constructed on a Multiple-Family Tract or Public or Commercial Site are sufficiently complete to be subject to Assessment, in the sole and uncontrolled discretion of the Board of Directors, as improved properties as defined in subparagraphs (d) and (e) hereinabove, or (ii) a building permit has been issued by the appropriate governmental authorities for a property formerly deemed a Residential Lot as defined in subparagraph (b) hereinabove.

(g) Property shall not be classified for purposes of these Covenants and these Annual Assessments as a Public or Commercial Unit until the improvements being constructed on a Public or Commercial site are sufficiently complete to be subject to Assessment, in the sole and uncontrolled discretion of the Board of Directors, as improved properties as defined in subparagraph (e) hereinabove.

(h) Property shall not be classified for purposes of these Covenants and these Annual Assessments as a Development Unit Parcel until such time as its exact metes and bounds have been surveyed and a plat thereof identifying or designating such property as a Development Unit Parcel is recorded in the Office

of the Register of Deeds in Durham County, North Carolina; provided, however, that any property within said parcel of land which also qualifies as an Exempt Property, as defined in Section 12 of this Article V, shall not be deemed part of said Development Unit Parcel for the purpose of calculating Assessments or votes. At such time as a Development Unit Parcel, or a portion of said Development Unit Parcel, is further subdivided and classifiable as a Residential Lot or Lots, Multiple-Family Tract or Public or Commercial Site, said property, or such portion of said property, shall then be classified as a Residential Lot or Lots, Multiple-Family Tract or Public or Commercial Site, and in addition, the remaining number of acres to be assessed as a Development Unit Parcel shall be calculated by subtracting (i) the number acres within the property which have been classified as a Residential Lot or Lots, Multiple-Family Tract or Public or Commercial Site from (ii) the total number of acres within the original Development Unit Parcel.

(i) For purposes of these Covenants and these Annual Assessments, all properties which have not been subdivided into and classified as Residential Lots, Multiple-Family Tracts, Public or Commercial Sites or Development Unit Parcels shall be classified as Unsubdivided Land; provided, however, that Unsubdivided land shall not include any property which also qualifies as Exempt Property as defined in Section 12 of this Article V.

(j) Assessments shall be billed annually, quarterly, monthly or on such other basis as may be determined by the Board of Directors. The billing schedule shall be the same for all properties of a specified category; however, the Board of Directors, in its discretion, may establish different schedules for the billing of Assessments due from different categories of property. All Assessment bills shall be due and payable ninety (90), thirty (30) or fifteen (15) days from the date of mailing of same as determined by the Board of Directors; provided, however, that if the Board of Directors elects to utilize a Billing Agent, the Billing Agent shall set the date on which Assessment bills shall be due and payable.

(k) The Board of Directors may authorize a Billing Agent to collect the Assessments provided for herein.

(l) The Owner of any assessable property which changes from one category to another during an Assessment year shall be billed an additional amount for the remaining full quarters of such year to reflect the category change.

(m) The Board of Directors shall determine the square footage of floor space to be assessed by the Association for each Public or Commercial Unit. In certain extraordinary circumstances, as in the case of an indoor tennis facility, skating rink, swimming pool, gymnasium, or certain storage areas where an unusually large number of square feet of floor space is required within such facility, the Board of Directors may, in its

sole and uncontrolled discretion, exempt from Assessment a portion of the square footage of floor space of such facility.

(n) Changes during an Assessment year in square footage of floor space to be assessed by the Association for a Public or Commercial Unit shall be reflected in the billing for the remaining full quarters of the Assessment year.

(o) From and after April 1, 1987, the Maximum Regular Annual Assessment shall be automatically increased each year by an amount of ten (10%) percent per year over the previous year, or the percentage increase between the first and last months of the thirteen (13) month period terminating at the end of the third (3rd) quarter of the previous Assessment year in the Consumer Price Index, U.S. City Average, All Items (1967-100) (hereinafter "C.P.I.") issued by the U.S. Bureau of Labor Statistics in its monthly report entitled "The Consumer Price Index, U.S. City Average and Selected Areas", whichever of these two percentage figures is larger. If the C.P.I. is discontinued, then there shall be used the most similar index published by the United States Government that may be procured indicating changes in the cost of living.

(p) Any increase in the Maximum Regular Annual Assessment shall be made in such a manner that the proportionate increase in such Assessment is the same for Owners of Residential Lots, Family Dwelling Units, Multiple-Family Tracts, Public or Commercial Sites, Public or Commercial Units, Development Unit Parcels, or Unsubdivided Land. Any time the actual Assessment levied by the Board of directors of the Association is less than the Maximum Regular Annual Assessment, such decrease shall be proportionate among the Owners of Residential Lots, Family Dwelling Units, Multiple-Family Tracts, Public or Commercial Sites, Public or Commercial Units, Development Unit Parcels, and Unsubdivided Land. The decrease or increase received by each class of Owners of the various classes of property may be made disproportionately by the favorable vote of seventy-five (75%) percent of the votes cast at a duly called meeting of the Association, subject to the quorum requirements established by Article III, Section 6 hereof, and by seventy-five percent (75%) of the votes cast at a duly called meeting of the Association, subject to the quorum requirements established by Article III, Section 6 hereof, any by seventy-five percent (75%) of the votes cast at said meeting by the Members of the classes whose proportionate share is being raised.

Section 4. Special Assessments for Improvements and Additions. In addition to the Maximum Regular Annual Assessments authorized by Section 3 hereof, the Association may levy Special Assessments for the following purposes:

(a) Construction, reconstruction, repair or replacement of capital improvements upon the Common Properties, Restricted Common Properties, Intended Common Properties or Intended Restricted Common Properties, including the necessary fixtures and personal property related thereto;

(b) For additions to the Common Properties or Restricted Common Properties;

(c) To provide for the necessary facilities and equipment to offer the services authorized herein;

(d) To repay any loan made to the Association to enable it to perform the duties and functions authorized herein;

(e) Such Special Assessment, before being charged, must have received the approval of the Members of the Association by the favorable vote of fifty-one percent (51%) of the votes cast at a duly called meeting of the Association, subject to the quorum requirements established by Article III, Section 6(a). The notice of such meeting shall include one (1) statement from those Directors favoring the Special Assessment and one (1) statement from those Directors opposing the Special Assessment, containing the reasons for those Directors' support and opposition for the Assessment. Neither statement shall exceed five (5) pages in length.

This provision shall be interpreted to mean that the Association may make in any one (1) year an Annual Assessment up to the maximum set forth in Section 3 of this Article V, plus an additional Special Assessment. Such Special Assessment in any one (1) year may not exceed a sum equal to the amount of the Maximum Regular Annual Assessment for such year except for emergency or repairs required as a result of storm, fire, natural disaster or other casualty loss. The fact that the Association has made an Annual Assessment for an amount up to the Maximum Regular Annual Assessment shall not affect its right to make a Special Assessment during the year.

The proportion of each Special Assessment to be paid by the Owners of the Various classifications of assessable property shall be equal to the proportion of the Annual Assessments levied for the Assessment year during which such Special Assessments are approved by the Members.

Section 5. Reserve Funds. The Association shall establish reserve funds from its Annual Assessments to be held in reserve in an interest drawing account of investments as a reserve for:

(a) Major rehabilitation or major repairs;

(b) For emergency and other repairs required as a result of storm, fire, natural disaster or other casualty loss, and;

(c) Initial costs of any new service to be performed by the Association.

Section 6. Special Assessments for Neighborhood Areas. On petition of seventy-five percent (75%) of all Owners within a particular neighborhood area, or contiguous Neighborhood Areas as such may be designated on a recorded subdivision plat, the Board of Directors of the Association may levy a Special Assessment applicable only to each Owner within the immediate Neighborhood

