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Articles of Incorporation

X Bylaws

Declaration

Addenda

BYLAWS

OF

VILLAGES AT STONEGATE HOMEOWNERS ASSOCIATION, INC.

BYLAWS
OF
VILLAGES AT STONEGATE HOMEOWNERS ASSOCIATION, INC.

ARTICLE 1

NAME AND LOCATION

The name of the corporation is Villages at Stonegate Homeowners Association, Inc. The principal office of the corporation shall be located in Mecklenburg County, North Carolina.

ARTICLE 2

DEFINITIONS

The defined terms set forth in Article 1 of the Declaration of Covenants, Conditions and Restrictions for Stonegate ("Declaration"), recorded in the Union County Public Registry are incorporated herein by reference and, unless specifically provided herein, the capitalized terms used in these By-laws shall have the same meaning given them in the Declaration.

ARTICLE 3

MEMBERSHIP AND VOTING RIGHTS

The terms and provisions of Article 8 of the Declaration entitled "Membership and Voting Rights" are incorporated herein by reference.

ARTICLE 4

MEETING OF MEMBERS

Section 1. Annual Meetings. The first annual meeting of the Members shall be held within one (1) year after the commencement of regular annual assessments as provided in Section 9.09 of the Declaration, but in no event shall the meeting be held later than four (4) months after the conveyance by Declarant of seventy-five percent (75%) of all Lots in the Property to Owners other than a successor Declarant for use as a residence. Subsequent regular annual meetings of the Members shall be held not less frequently than once each calendar year, at a date, time and place selected by the Board. If the day for the

annual meeting of the Members is a legal or religious holiday, a Saturday or a Sunday, the meeting shall be held at the same hour on the first working day thereafter.

Section 2. Special Meetings. Special meetings of the Members shall be promptly scheduled in response to a majority vote of a quorum of the Board, or upon receipt of a written request signed by Members representing not less than ten percent (10%) of the total Voting Power of the Association.

Section 3. Notice of Meetings. Written notice of annual and special meetings of Members shall be given by, or at the direction of, the Secretary of the Association or other person authorized to call the meeting, by mailing a copy of such notice, first-class postage prepaid, not less than ten (10) days nor more than sixty (60) days before such meeting, to each Member entitled to vote, 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 of a meeting shall specify the place, date and hour of the meeting, and, the items on the agenda including the general nature of any proposed amendment to the Declaration or these Bylaws, any budget changes and any proposal to remove a director or officer. The notice of any meeting at which Directors are to be elected shall include the names of all those who are nominees at the time the notice is given to Members. Notice shall also be given to the Mortgagees on Lots at the address supplied by the Mortgagee to the Association, if any, and each such Mortgagee shall have the right to designate a representative to attend any meeting. Waiver by a Member in writing of the notice required herein, signed by him, shall be equivalent to the giving of such notice.

Section 4. Quorum. The presence at the beginning of any meeting of Members entitled to cast, or of proxy holders entitled to cast, ten percent of the total Voting Power of the Association shall constitute a quorum for any action, except as may otherwise be provided in the Articles, the Declaration or these Bylaws. The Members present at any duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the Members required to constitute a quorum. In the absence of a quorum, the Members entitled to vote at such meeting shall have the power, upon an affirmative vote of a majority of those Members present in person or by proxy, to adjourn the meeting to another time without notice (other than announcement at the meeting). Any adjournment for lack of a quorum shall be to a date not less than five (5) days and not more than thirty (30) days from the original meeting date. If a time and place for the adjourned meeting is not fixed by those in attendance at the original meeting or if for any reason a new date is fixed for the adjourned meeting after adjournment, notice of the time and place of the adjourned meeting shall be given to Members in the manner prescribed herein for regular meetings.

Section 5. Proxies.

(a) At all meetings of Members, each Member may vote in person or by proxy. All proxies shall be in writing, dated and filed with the Secretary of the Association or other person designated at the meeting. Every proxy shall be revocable and shall automatically cease upon conveyance by the Member of his Lot or upon receipt by the Association of written notice of the death or incapacity of the Member who executed the proxy. Any proxy shall be invalid after expiration of eleven (11) months from the date it is executed.

(b) Any form of proxy or written ballot distributed to ten (10) or more Members shall afford an opportunity on the proxy or form of written ballot to specify a choice between approval and disapproval of each matter or group of related matters intended, at the time the written ballot or proxy is distributed, to be acted upon at the meeting for which the proxy is solicited or by such written ballot, and shall provide, subject to reasonable specific conditions, that where the Member solicited specifies a choice with respect to any such matter, the vote shall be cast in accordance therewith.

(c) Every form of proxy or written ballot, which provides an opportunity to specify approval or disapproval with respect to any proposal, shall also contain an appropriate space marked "abstain," whereby a Member may indicate a desire to abstain from voting on the proposal. A proxy marked "abstain" by the Member with respect to a particular proposal shall not be voted either for or against such proposal.

(d) In any election of Directors, any form of proxy or written ballot in which the Directors to be voted upon are named therein as candidates and which is marked by a Member "withhold" or otherwise marked in a manner indicating that the authority to vote for the election of Directors is withheld shall not be voted either for or against the election of a Director.

(e) Failure to comply with this section shall not invalidate any corporate action taken, but may be the basis for challenging any proxy at a meeting and the superior court may compel compliance therewith at the suit of any Member.

Section 6. Location. Meetings of Members shall be held within the Property or as close thereto as possible.

Section 7. Action Taken Without a Meeting. Any action which may be taken by the vote of Members at a regular or special meeting, except the election of the Board, may be taken in the absence of a meeting by written consent.

every year until after the first annual meeting of Members, and then not less often than once every three (3) months. Regular meetings shall be held at such place within the Property and at such hour as may be fixed from time to time by resolution of the Board. Notice of the time and place of regular meetings shall be posted at a prominent place or places in the Property, and shall be communicated to all Directors not less than four (4) days prior to the meeting, provided, however, that notice of a meeting need not be given to any Director who has signed a waiver of notice or consent to holding of the meeting.

Section 2. Special Meetings. Special meetings of the Board shall be held when called by written notice signed by the president of the Association or by any two (2) Directors other than the president. The notice shall specify the time and place of the meeting and the nature of any special business to be considered. The notice shall be sent to all Directors and posted in the manner prescribed for notice of regular meetings not less than seventy-two (72) hours before the scheduled time of the meeting, provided, however, that the notice need not be given to any Director who has signed a waiver of notice or consent to holding the meeting.

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. Open Meetings. Regular and special meetings of the Board shall be open to all Members of the Association; provided, however, that Members who are not Directors may not participate in any deliberation or discussion unless expressly so authorized by the vote of a majority of a quorum of the Board.

Section 5. Executive Session. The Board may, with the approval of a majority of a quorum of its members, adjourn a meeting and reconvene in closed executive session to discuss and vote upon personnel matters, litigation in which the Association is or may become involved and orders of business of a similar nature. The nature of any and all business to be considered in executive session shall first be announced in open session.

ARTICLE 8

POWERS AND DUTIES OF THE BOARD OF DIRECTORS

Section 1. Powers. Except as may be specifically limited by the terms and provisions of the Act, the Board shall have power to:

(a) Adopt, publish and enforce Rules and Regulations governing the Property, the use and enjoyment of the Common Area and any facilities thereon, and the personal conduct thereon of the Members, their guests, invitees, members of their families or households, and tenants, provided that (i) the Members may amend any such Rules and

Regulations adopted by the Board at any regular or special meeting of the Members called for such purpose (a) if a two-class voting structure is in effect, by the vote or written consent of sixty-seven percent (67%) of the total Voting Power of each class of Members and the within approval of FHA, or (b) if a two-class voting structure is not in effect, by the vote or written consent of sixty-seven percent (67%) of the total Voting Power of the Association; (ii) such Rules and Regulations shall be reasonable, shall not discriminate against Declarant, and must be consistent with the Declaration, the Articles and these Bylaws; and (iii) Rules and Regulations shall not be effective until written notice thereof has been given by mailing a copy of the Rules and Regulations, postage prepaid, at least ten (10) days before the effective date of the Rules and Regulations, to each Member addressed to the Member's address last appearing in the books of the Association.

(b) After Notice and Opportunity for Hearing by the Board, (i) suspend an Owner's rights as a Member of the Association, including his voting rights and right to use any Common Area facilities on the Common Area, for any period during which any fine against such Member or any assessment against such Member's Lot remains unpaid; (ii) impose monetary penalties as provided in the Declaration for any infraction of the Rules and Regulations or any violation of or failure to comply with the provisions of the Declaration or these Bylaws, provided the Member shall have been warned in writing of a previous infraction within the preceding one (1) year; and (iii) suspend an Owner's rights as a Member of the Association for a period not to exceed thirty (30) days for any infraction of the Rules and Regulations;

(c) Enforce and carry out provisions of the Declaration, these Bylaws and the Articles, and exercise all rights of the Association and the Board set forth in the Declaration, these Bylaws and the Articles;

(d) Pay any taxes or assessments which are or could become a lien on the Common Area or any portion thereof;

(e) Contract for casualty, liability and other insurance;

(f) Incur and pay expenses on behalf of the Association and contract for goods and services for the Common Area or any other real or personal property for which the Association is responsible and any other real or personal property for which the Association may be responsible or as to which the Association may have duties and obligations; provided, however, that: (i) no contract with a third person wherein the third person will furnish goods or services for the Common Area or any other real or personal property for which the Association is responsible or the Association shall exceed a term of one year (except for a management contract, the terms of which have been approved by the FHA or the Veterans Administration, or a contract with a public utility regulated by the Public Utilities Commission, in which case the contract shall be limited to the shortest term allowable by such public utility at the regulated rate, or prepaid casualty or liability insurance policies which shall not exceed three (3) years' duration, provided the policy

permits short rate cancellation by the insured); (ii) expenditures in the aggregate exceeding five percent (5%) of the budgeted gross expenses of the Association for any fiscal year of the Association shall not be incurred for capital improvements to the Common Area in any fiscal year; and (iii) any management agreement for the Property shall be terminable for cause upon thirty (30) days' written notice and without cause upon ninety (90) days' written notice, without payment of a termination fee. The restrictions contained in (i) and (ii) hereinabove shall not apply if the contract or expenditures are approved by the vote or written consent of sixty-seven percent (67%) of the Voting Power of each class of Members and the written approval of FHA so long as there are two classes of Members, and by sixty-seven percent (67%) of the Voting Power residing in Members other than Declarant when there is one class of Members;

(g) Delegate to committees, officers, employees and other agents of the Association reasonable powers to carry out the powers and duties of the Board; provided, however, that the Board shall not delegate the power to impose discipline against Members or to levy fines against Members;

(h) Prepare and distribute budgets and financial statements of the Association;

(i) Enter any Lot, at reasonable hours, after forty-eight (48) hours' notice and with as little inconvenience to the Owners as possible, in connection with any work or thing required or permitted to be performed or done by the Association by these Bylaws, the Declaration or the Rules and Regulations. In the event of emergency threatening injury to persons or property, or reasonable cause to believe there is such an emergency, the right of entry shall be immediate and may be exercised without notice, whether or not the Owner is present. The Association shall repair any damage caused by such entry;

(j) Employ a manager and such other employees as it deems necessary to carry out the powers and duties of the Association;

(k) Sell, transfer, dedicate, hypothecate, partition, subdivide, abandon, release or alienate the Common Area as permitted by the Act, provided however that if a two-class voting structure is in effect written approval of FHA shall be required;

(l) Exercise all the powers set forth in the North Carolina Nonprofit Corporation Code and the Act, except those reserved to the Members by the provisions of these Bylaws, the Articles or the Declaration; and

(m) Compromise, settle, release and otherwise adjust claims, demands, causes of action and liabilities on behalf of the Association and Owners, as the case may be, provided any such claim, demand, cause of action or liability arises out of or relates to a condition or defect common to all or a majority of the Lots or improvements constructed thereon, or to the development, design, construction, condition, repair or maintenance of or damage or injury to or defect in the Common Area or part thereof, and make and

receive all payment or other consideration necessary therefor or in connection therewith. For such purposes, the Board shall be, and hereby is, irrevocably appointed attorney-in-fact to act on behalf of all Owners upon such terms and conditions and for such consideration as may be approved by a majority of the Board.

Section 2. Non-Liability. A Director of the Board shall not be liable to the Members if he performs the duties of a Director, including the duties as a member of any committee of the Board upon which the Director may serve, in good faith, in a manner such Director believes to be in the best interests of the Association and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances. In performing the duties of a Director, a Director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared and presented by:

- (a) One or more officers or employees of the Association whom the Director believes to be reliable and competent in the matters presented;
- (b) Counsel, independent accountants or other persons as to matters which the Director believes to be within such person's professional or expert competence; or
- (c) A committee of the Board on which the Director does not serve, as to matters within its designated authority, which committee the Director believes to merit confidence; so long as, in any such case, the Director acts in good faith, after reasonable inquiry, when the need therefor is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

Section 3. Duties. The Board shall:

- (a) Cause to be kept a complete record of all its acts and corporate affairs and to present to the Members, and any Mortgagee making written request therefor, the following:
 - (i) A pro forma operating statement (budget) for each fiscal year, which statement shall be distributed not less than forty-five (45) days and not more than sixty (60) days before the beginning of the fiscal year;
 - (ii) A balance sheet as of an accounting date which is the last day of the month closest in time to six (6) months from the date of closing of the first sale of a Lot in the Property and an operating statement for the period from said date of such first closing to said accounting date, which balance sheet and statement shall be distributed within sixty (60) days after the accounting date. The operating statement shall include a schedule of assessments received and receivable identified by Lot number and Owner's name;

- (iii) An annual report, which annual report shall be distributed within one hundred twenty (120) days after the closing of the fiscal year, consisting of the following:
 - (A) A balance sheet as of end of the fiscal year;
 - (B) An operating (income) statement for the fiscal year;
 - (C) A statement of changes in financial position for the fiscal year; and
 - (D) The annual report shall be prepared by an independent public accountant for any fiscal year in which the gross income of the Association exceeds \$75,000 and, if not prepared by an independent accountant, the annual report shall be accompanied by the certificate of an authorized officer of the Association that the statements were prepared without audit from the books and records of the Association.

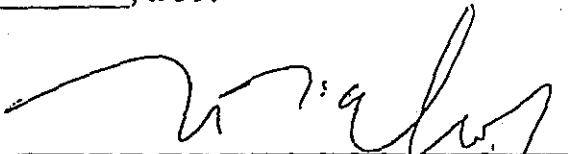
(b) Supervise the officers, agents and employees of the Association in the proper performance of their duties;

(c) As more fully provided in the Declaration and subject to any limitations contained therein:

- (i) Fix the amount of the annual assessment against each Lot at least sixty (60) days in advance of each annual assessment period and, if necessary, revise such annual assessment;
- (ii) Send written notice of each assessment to every Owner in advance of each annual assessment period, provided that failure to comply with the provisions of this subparagraph shall not invalidate any assessment, lien or obligation to pay such assessment; and
- (iii) Take appropriate action against any Owner who is delinquent in the payment of any assessment to the Association, which action may include, but is not limited to, commencement of an action against the Owner for payment thereof and/or foreclosure of the lien against the Lot of such Owner.

(d) Issue, or cause an appropriate officer to issue, upon demand by any person having a legitimate interest, a certificate setting forth whether or not any assessment has been paid, for which certificate a reasonable charge may be made by the Board;

IN WITNESS WHEREOF, I, the undersigned incorporator have hereunto set my hand and seal this 5th day of Nov., 1999.



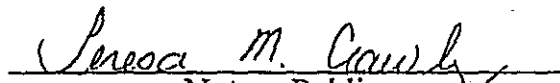
Mikell McElroy

STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

I, Teresa M. Crawley, a Notary Public for the County and State aforesaid, do hereby certify that Mikell McElroy personally appeared before me this day and acknowledged the execution of the foregoing instrument.

WITNESS my hand and official seal this 5th day of Nov., 1999.



Notary Public

My Commission Expires:

10-23-00

have such authority and perform such duties as the Board may determine from time to time.

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

Section 7. Multiple Offices. No person shall simultaneously hold more than one of any of the offices, except in the case of special offices created pursuant to section 4 of this Article 9; provided, however, that notwithstanding the foregoing, the offices of secretary and treasurer may be held by the same person.

Section 8. Duties. The duties of the officers shall be those usually vested in their respective offices, including the following:

(a) President: The president shall preside at all meetings of the Board and shall see that orders and resolutions of the Board are carried out;

(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 duties as may be required of him by the Board;

(c) Secretary: The Secretary, or an assistant secretary elected and authorized by the Board, shall keep minutes of all meetings of the Board and of the Members and shall have custody and charge of the Association's corporate seal, minute books, membership transfer books, and such other books, papers and documents as the Board may prescribe; and

(d) Treasurer: The Treasurer, or an assistant treasurer elected and authorized by the Board, shall be responsible for Association funds and securities and shall keep or supervise the keeping by persons designated by resolution of the Board of books of account of Association receipts and disbursements.

Section 9. Checks and Drafts. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable by the

Association shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board.

Section 10. Execution of Contracts and Other Documents. The Board by resolution may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument in the name of and on behalf of the Association, and such authority may be general or confined to specific instances. Unless so authorized by the Board, no officer, agent or employee shall have any power or authority to bind the Association by any contract or agreement or to pledge its credit to render it liable for any purpose or for any amount.

ARTICLE 10

BOOKS AND RECORDS

The membership register, books of account and minutes of meetings of the Members, Board and committees of the Board shall be made available for inspection and copying by any Member, any Member's duly appointed representative and any Mortgagee during normal business hours for a legitimate purpose, at such place or places within the Property as the Board may prescribe. The Board shall establish reasonable rules with respect to notice to be given to the custodian of the records by the Member or Mortgagee desiring to make the inspection; hours and days of the week when such an inspection may be made; and payment of the cost of reproducing documents requested by a Member or Mortgagee. The Declaration, the Articles and these Bylaws shall be available for inspection by any Member at the principal office of the Association, where copies may be obtained at reasonable cost. Every Director shall have the absolute right at any reasonable time to inspect all books, records and documents of the Association and the physical properties owned or controlled by the Association, including the right to make extracts and copies of documents.

ARTICLE 11

ASSESSMENTS

As more fully provided in the Declaration, each member, including Declarant, is obligated to pay to the Association annual and special assessments which are secured by a lien upon the Lot against which the assessment is made. Any assessments which are not paid within ten (10) days of the due date shall be delinquent. The Board may require that any delinquent assessment bear a late charge to cover administrative expenses incurred as a result of the late payment of the assessment. Late charges on delinquent assessments shall not exceed the rates set forth in the Declaration. The Association may bring an action at law against the Owner personally obligated to pay a delinquent assessment, or foreclose the lien against his Lot and, after Notice and Opportunity for Hearing, the Association may suspend a delinquent Owner's membership in the Association while the

assessment remains unpaid. In any action to enforce payment of an assessment, the Association shall be entitled to recover interest, costs and reasonable attorneys' fees. No Owner may exempt himself from payment or assessments by waiver of the use or enjoyment of all or any portion of the Common Area or abandonment of his Lot.

ARTICLE 12

CORPORATE SEAL

The Association shall have a seal in circular form having within its circumference the name of the Association.

ARTICLE 13

AMENDMENTS AND INTERPRETATION OF DOCUMENTS

Section 1. Amendment. Any amendment of these Bylaws shall require (i) if a two-class voting structure is in effect, the vote or written consent of sixty-seven percent (67%) of the Voting Power of each class of Members as such classes of membership are set forth in the Declaration and these Bylaws and the written approval of FHA; or (ii) if a two-class voting structure is not in effect, the vote or written consent of both sixty-seven percent (67%) of the Voting Power of the Association and the vote or written consent of sixty-seven percent (67%) of the Voting Power of the Association residing in Members other than Declarant; provided, however, that no such amendment shall change any provision hereof where such provision is contained in or governed by the Articles or the Declaration, unless the applicable provisions of the Articles and/or Declaration are likewise amended as therein required, and provided further that the percentage of the Voting Power of the Association and of Members other than Declarant necessary to amend a specific provision of these Bylaws shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that provision. Any amendment which establishes, governs, provides for or regulates any one of the following: (i) voting; (ii) assessments, assessment liens or subordination of such liens; (iii) reserves for maintenance, repair and replacement of the Common Area; (iv) insurance or fidelity bonds; (v) right to use of the Common Area; (vi) responsibility for maintenance and repair of the Project; (vii) expansion or contraction of the Project or the addition, annexation or withdrawal of property to or from the Project; (viii) the boundaries of any Lot; (ix) interests in the Common Area; (x) leasing of ownership interests; (xi) imposition of any right of first refusal or similar restriction on the right of an Owner to sell, transfer, or otherwise convey his Lot; (xii) any provisions which are for the express benefit of Mortgagees; or (xiii) any other material amendment shall require written consent of sixty-seven percent (67%) of the Mortgagees (based on one vote for each Mortgage owned), and (a) if a two-class voting structure is in effect, the vote or written consent of sixty-seven percent (67%) of the Voting Power of each class of Members, or (b) if a two-class voting structure is not in effect, the vote or written consent

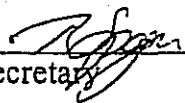
CERTIFICATION

The undersigned, does hereby certify:

That I am the duly elected and acting secretary of Villages at Stonegate Homeowners Association, Inc., a North Carolina nonprofit corporation, and,

That the foregoing bylaws constitute the original Bylaws of said Association, as duly adopted at a meeting of the Board of Directors of said corporation, held on the 16th day of February, 2000.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Association this 16th day of February, 2000.



Secretary

