

BY LAWS
OF
THE KNOB CREEK HOMEOWNERS ASSOCIATION
As Amended and revised September 1, 2007

Article I

Definitions

The following terms as used in these By-Laws are defined as follows:

- a. Board means the Board of Directors of the Knob Creek Homeowners Association
- b. By-Laws means the By-Laws of the Association
- c. Common Area means all of the real property designated as such in the Supplemental Declaration: all real property which may be later annexed to the Developmental as Common Area; and, all real property acquired by the Association whether from the Declarant or otherwise, together in each instance with all improvements which may at any time be constructed thereon, including, but not limited to, recreational and community facilities, lakes, parks, and streets.
- d. Association means the Knob Creek Homeowners Association, a North Carolina not-for-profit Corporation.
- e. Declaration means the Declaration of Restrictive Covenants for Knob Creek, dated the 1st day of September, 2007, as the same may be supplemented or amended from time to time.
- f. Declarant means Knob Creek Homeowners' Association., its successors and assigns.
- g. Development means Knob Creek as the same may be shown on the maps thereof recorded from time to time.
- h. Improvement means all buildings, out buildings, streets, roads, driveways, parking areas, fences, retaining and other walls, hedges, poles, antennae and any other structure of any type.
- i. Lot means any numbered lot designated on the plat or any apartment or living unit in the multiple family dwelling.
 - j. Multiple Family Dwelling means a residential dwelling, such as a duplex, apartment house, or condominium complex containing two or more individual apartments or living units and constructed on a lot or parcel whose use is designated in the Supplemental Declaration as multi-family residential.
- k. Owner means:
 - 1. Any person including Knob Creek Homeowners Association, who holds fee simple title to any Lot.
 - 2. Any person or legal entity who has contracted to purchase fee simple title to a lot pursuant to a written agreement, in which case seller under said agreement shall cease to be the owner while said agreement is in effect.
- l. Parcel means any named, lettered tract shown on the plat.
- m. Plat means the maps or plats of Knob Creek as they are from time to time recorded.
- n. Single Family Dwelling means a residential dwelling for one or more persons each related to the other by blood, marriage, civil union or legal adoption, or a group of not more than three (3) adult persons not so related together with his or their domestic employees maintaining a common household in such dwelling, which dwelling is constructed on a lot designated in the Supplemental Declaration as a single family residential lot.

Article II

Association Membership

Section 1. Classes of Members. There shall be Members and Associate Members.

Section 2. Members. Each Owner shall by reason of ownership, become a member of the Association. There shall be one vote and one voting member for each Lot regardless of the number of persons who may have an ownership interest in such Lot, or the manner in which title is held by them. The voting member shall be designated at the request of the Association.

Section 3. Associate Members. If not otherwise a member, each of the following shall be entitled to associate membership in the Association:

1. The spouse and children of a member who have the same principal residence as the member shall be associate members of the Association.
2. Those persons who are tenants and regular occupants of any dwelling and who are not otherwise entitled to be members or associate members.
- (c) Any lot owner whose property is not included in the platted Knob Creek subdivision, but who is required to pay the annual Association dues, shall be designated as an Associate Member.

Associate members shall have no vote or right to notice of any regular or special meeting of members.

Section 4. Privileges of Members. Members and associate members shall have a license to use the Common Areas subject to the provisions of the Declaration and subject to the other rules and conditions as may be established by the Board.

Section 5. Suspension of Privileges of Membership. The Board may suspend the voting privileges of any member and license of any member to use the Common Area for:

3. Any period during which any Association charge on such members lot remains unpaid.
4. The period of any continuing violation by such member of the provisions of the Declaration after the existence thereof shall have been declared by the Board.
5. A period to be determined by the Board for repeated violations of the By-Laws or the rules and regulations of the Association. This suspension must be acted on by the Board of Directors with the suspended party being notified by mail.

Article III

Evidence of Membership and Transfer

Section 1. Membership Certificates. Certificates of membership in the Association may be issued to members and associate members. Such certificates shall be in such form as the Board shall from time to time designate and shall be issued over the signature of the president or other officer of the Association. Such certificate shall indicate whether or not the holder is a member or an associate member and shall also indicate the Lot, the Ownership of which gives rise to membership. Such certificates shall also clearly state on its face that the Association is a non-profit corporation. Adequate records shall be maintained by the Association, showing the names of the members and associate members of the Association, the type of membership and the date of membership. A driver's license may substitute for the aforementioned certificates if proof of membership is requested by the Association at the Annual Meeting.

Section 2. Transfer. When a member ceases to be an Owner, such person's membership, and those associated memberships existing through relationships in such person, shall cease, but such person shall remain liable for all Association charges incurred prior to the giving of written notice to the Association that such person no longer is an Owner

Article IV

Meetings of Members

Section 1. Place of Meetings. Any meeting of the members of the Association shall be held in the state of North Carolina, within the boundaries of Transylvania County, at such place therein as may be stated in the notice of such meeting.

Section 2. The Annual Meeting. The Annual Meeting of the Association shall be held in August of each year on a date determined by the Board. The annual meeting is a general meeting and shall be conducted in accordance with Roberts Rules of Order, latest edition.

Section 3. Special Meeting of the Association. Special meetings of the Association may be called by the Board at any time in the manner herein provided. A special meeting may also be called upon the written petition of twenty (20) percent of the members of the Association who would have the right to vote at such meeting. Such petition shall set forth the purpose of the special meeting. Special meetings shall be conducted in accordance with Roberts Rules of Order, latest edition.

Section 4. Notice of Meetings of the Association. Written notice of the place, date and hour of the meeting, and in the case of a special meeting, the purpose or purposes for which the meeting is called shall be delivered not less than the (10) days no more than fifty (50) days before the date of the meeting, either personally or by mail, to each member entitled to vote at such meeting. If mailed, such notice shall be deemed to have been delivered when deposited in the United States mail, addressed to the member at his address as it appears on the records of the Association, with postage prepaid; or such notice may be published in any newspaper or publication printed under the auspices of the Association and distributed generally among members of the Association. At a special meeting, no business shall be conducted except that stated in the notice of said meeting.

Section 5. Quorum. A quorum at either a special meeting, or the annual meeting shall be twenty-five percent (25%) of the members entitled to vote at such meeting in person or by proxy. The vote of a majority of the votes entitled to be cast at any meeting at which a quorum is present shall be necessary for the adoption of any matter voted upon by the members, unless a greater proportion is required by law, or in a specific By-Law, or in the Restrictive Covenants.

Article V

Board of Directors

Section 1. Powers. The Board shall:

- a. Manage and control the affairs of the Association.

- b. Adopt a corporate seal as the seal of the Association.
- c. Designate a banking institution or institutions, as a depository for the Association's funds and the officer or officers authorized to make withdrawals therefrom and to execute Obligations on behalf of the Association.
- d. Perform other acts the authority for which has been granted herein or by law, including the borrowing of money for Association purposes. A resolution by the Board that the interests of the Association require the borrowing of money shall be sufficient evidence for any person that the borrowing is for proper corporate purpose. The Board may, if it determines that the same shall be reasonably necessary, assign, pledge, mortgage, or encumber any Association property as security for such borrowings, and they may pledge or assign future revenues of the Association as security therefor.
- e. Adopt such rules and regulations relating to the use of Association property, and sanctions for non-compliance therewith, as it may deem reasonably necessary for the best interest of the Association and its members. The Board may also establish and levy reasonable fees for the issuance of permits for erecting or placing improvements on any lot, and also for the use of Association property.
- f. Cause the Association to employ sufficient personnel to adequately perform the responsibilities of the Association.
- g. Adopt reasonable rules of order for the conduct of the meetings of the Association, and with reference thereto, on procedural questions upon which no rules have been adopted, the ruling of the chairman of the meeting shall be final.
- h. Select the Officers of the Association. It may establish committees of the Association and appoint the members thereof. It may assign to such committees such responsibilities and duties not inconsistent with the provisions of these By-Laws or with law as it may deem appropriate.
- i. The Board shall adopt an operating budget on an annual basis to be presented to the members at the annual General meeting. The Board at that time shall, taking into consideration other sources of income the Association may have, levy the annual assessment for each lot for the following year. The assessment will be the sum of three parts (more detailed descriptions of each appear in Article VI, Sections 8 and 9):
 - 1. Contribution to the Association operating expenses.
 - 2. Contribution to the Association Emergency fund.
 - 3. Contribution to the appropriate Are Road

Maintenance fee.

The contribution to the appropriate road maintenance fund will be determined annually by each Area's representatives and adjusted as required. Area assessments may differ based upon the respective Area's road maintenance needs. If this should occur, each property owner within that same Area shall be assessed equally. Assessments shall be due on an annual basis by September 15 of every year.

Section 2. The number of Directors shall be not less than five and not more than eight.

Section 3. Term of Office. All Area representatives shall be elected to serve for two years with each Area electing its two representatives so that the terms are staggered , and not concurrent. If, during a term in office, a director shall cease to function, the Board of Directors shall have the right to appoint a replacement to serve the remainder of the unexpired term. In order to provide continuity of leadership, the President shall serve for one year and then the Vice-President, following his/her first one-year term, shall assume the duties of President for a one-year term in the second year. Each Area shall nominate its own candidate for Vice-President on a rotating basis every two years, but all members of the Association may vote for the position of Vice-President. In order to achieve this rotation, the President shall be selected from Area II in the August, 2007 election and shall serve a two year term. In the election of August, 2008, Area I shall nominate a candidate for Vice President who shall then become President in August, 2009 for a one-year term, with this process then continuing on an alternating basis each year.

Section 4. Qualifications of Directors. A Director shall be at least twenty-one years of age and a member in good standing of the Association.

Section 5. Election of the Directors of the Board.

- a. By July 1 of each year, the membership shall be notified of the need to elect members to the Board of Directors. Any member in good standing may submit names to be included on the ballot. These must be submitted to the Board of Directors not later than July 15, along with a biographical sketch and qualifications for office of the person being nominated. Each Area shall elect a minimum of two representatives who will act both as Board members and constitute the operating committee for the respective Area, but the terms of these representatives are to be staggered as outlined in Section 3 above. In the year when an Area is to nominate the Vice-President, the Area shall submit a slate with a minimum of two (2) candidates, one for Area representative and the other for the Area's nomination for Vice-President; otherwise, an Area must submit a minimum of one (1) candidate for Area representative.

The full list of qualified candidates, along with a biographical sketch and qualifications for office, shall be circulated to all Association members not

later than August 1. Additional nominations from the floor during the Annual Meeting will not be permitted. Voting shall take place at the Annual meeting of the Association. Each property owner in good standing shall have the number of votes equal to the number of Directors being elected from his/her Area. Members only vote for representatives for their own area. Only one vote shall be cast for each candidate. Members owning multiple lots shall receive ballots for each lot. No matter of the number of Directors elected from each Area, each Area will have only two votes (plus the President's vote, if needed) on Board decisions. The Vice-President may vote on any Board decision in the President's absence.

- b. Absentee Ballots. Lot owners not resident in Knob Creek shall be mailed a ballot. The ballot must be returned to the Association and received by the secretary on or before the date of the Annual Meeting in order to be valid.

Association members who are residents in Knob Creek, but cannot be present at the Annual Meeting may also vote by mail. A ballot must be requested of the secretary in writing, giving the reason for non-attendance at the Annual Meeting. The ballot must be in the hands of the secretary prior to the Annual Meeting. Each ballot must be signed by the property owner, otherwise it will be disqualified.

- c. All elections to the Board shall be made on written ballots which shall:
6. Describe the vacancy to be filled.
 7. Set forth the names of those persons who are candidates for the office of Director in alphabetical order.

Section 6. Proxies. Except in connection with the election of Directors, every member entitled to vote or execute consents shall have the right to do so either in person or by an agent, or agents authorized by a written proxy executed by such member or his duly authorized agent and filed with the secretary of the Association provided that no such proxy shall be valid after the expiration of eleven (11) months from the date of its execution unless the person executing it specifies therein the length of time for which such proxy is to continue in force, which in no event shall exceed three (3) years from the date of its execution. The Board may decide, in some circumstances, to issue ballots via United States mail for some matters in lieu of a Special Meeting and where the interests of the Association would benefit from the widest participation in the voting process.

Section 7. Meetings of the Board of Directors. Regular and special meetings of the Board shall be held at place and time, in Transylvania County, the state of North Carolina, as the Board shall from time to time determine. Special meetings of the Board may be called by a majority of the Board and shall be held at such place as the call or notice of the meeting shall designate. Notice of a special meeting may be given in writing, or orally, at least twenty-four (24) hours prior to the date of said special meeting,

or notice thereof may be waived by the Directors in writing. After adoption of a resolution setting forth the times of regular meetings, no notice of such meetings shall be required or waived, but notice of special meetings of the Board shall be given.

Section 8. Action without meeting. Unless prohibited by law, any action which may be taken at a meeting of the Board may be taken without a meeting if authorized in writing, signed by a majority of the directors who would be entitled to vote upon said action at a meeting, and filed with the Secretary of the Association.

Section 9. Quorum. A majority of the Directors shall constitute a quorum to transact business for the Board and the act if the majority of the Directors present at any meeting shall be deemed to be the act of the entire Board.

Section 10. Vacancies. If any vacancy exists on the Board, such vacancy shall be filled by the remaining Directors from the appropriate Area even though those remaining Directors might be less than a quorum. Any person so appointed a Director shall serve out the unexpired term of the Director whom he/she has replaced. Any Director who fails to attend three (3) consecutive regular and/or special meetings of the Board without notification to the Board of reason for absence satisfactory the Board, shall be deemed to have resigned and the Board shall appoint a new Director from the appropriate Area to serve in his/her place, serving the unexpired term of his/her office. At the discretion of the Board, an acting Director can be named in case of a protracted excused absence of a Director. At no time shall the number of active members of the Board be allowed to fall below a quorum.

Article VI The Officers

Section 1. Officers. The officers of the Association shall be the President, the Vice-President, the Secretary, the Treasurer and such other officers and assistant officers as the Board may from time to time elect. Officers (other than the President and Vice-President) shall serve at the will of the Board. Any two (2) or more offices may be held by the same person, except the offices of President and Secretary. Officers must be members in good standing and their dwelling in Knob Creek must be their primary residence.

Section 2. President. The President shall be the general managerial officer of the Association, and he shall be vested with the powers and duties generally incident to the office of President of a non-profit corporation, except as otherwise determined by the

Board, or as may be otherwise set forth in these By Laws. He is an ex-officio member of all committees. He shall preside at all meetings of the Board.

Section 3. Vice President. In the absence of the President, or in the event of his inability or refusal to act, the Vice President is empowered to act and shall thereupon be vested with the powers and duties of the President. The Vice-President, following his/her first one-year term, will assume the position of President during the second one-year term.

Section 4. Secretary. The secretary of the Association shall keep the minutes of the business and other matters transacted at the meetings of the members and of the Board. He/she shall mail, or cause to be mailed, all notices required under the By-Laws. He/she shall have the custody of the corporate seal and records and maintain a list of the members and their addresses and perform all other duties incident to the office of Secretary.

Section 5. Treasurer. The Treasurer shall have custody of the funds of the Association, collect monies due, pay the obligations of the Association out of its funds, and perform such other duties as are incident to the office of Treasurer. The Board may require that the Treasurer be bonded for such amount and under such conditions as the Board may require. He/she shall report at monthly intervals, and shall explain any unbudgeted expense. Any budgeted expense in excess of 10% above budget must be approved by the Board.

Section 6. Removal of Officers. Any officer may be removed when, in the judgement of the Board, the best interests of the Association will be served by such removal.

Section 7. Organization of the Board. Board of Directors Structure: President, Vice-President, plus two (2) representatives from each Area, along with a Secretary and Treasurer. Presidency of the Association shall rotate annually beginning in August 2009

as per Article V, Section 3. It is the Areas' responsibility to elect their representatives at the Annual Meeting of the Association in August of each year.

Responsibilities - The Board is responsible for the development and administration covering the following areas:

- All taxes applicable to Knob Creek
- Safety Deposit Box rental
- Post Office Box rental
- Snow and Ice removal
- Common area supplies
- Common area equipment
- Common area landscaping
- Repair and replacement of signs
- Stationery supplies
- Printing and copying
- Postage
- Common Activities (social, etc.)
- Legal fees
- Insurance

The above areas are in addition to the Boards primary responsibility of collecting the assessments and enforcing the Restrictive Covenants.

Section 8. Annual Assessment Allocation. The annual assessments that are payable each September by all members shall be allocated to three separate Areas. 1) the General Fund which shall be used to cover general maintenance (mowing, snow plowing, etc.), administrative expenses, and any other expenses not directly related to road maintenance or emergencies; 2) the respective road maintenance funds for each Area (Willow Ridge Road Maintenance for Area I and the Oak Ridge Road Maintenance for Area II, with the monies for these two funds being allocated proportionately to each fund based upon the number of properties paying dues in each Area and with these funds to be used for the cost of repair to the roads in each respective Area, except when such repairs are necessitated by an emergency as declared by the Board as per Section 9 below); 3) the Emergency Fund which is governed by the provisions of Section 9 below. The Board has the authority to adjust the allocation to the various funds annually based upon the budget adopted at the Annual Meeting.

Section 9. Emergency Fund.

- a. Establishment. The Emergency Fund has been established to pay for costs resulting from a specific, unanticipated event and for when such expenses would not normally be considered part of the regular maintenance of the Association roads or Common Areas. This fund is to be used as specified in the sections below. The Board shall review the size of this fund annually to see whether it is adequate to meet the needs of the Association. Additionally, if the size of the fund reaches a point where the Board feels that it is more than adequate, the Board may elect to transfer some of the fund back to the respective Area road funds on a pro-rata basis (as per the allocation method specified in Section 8).

- Interest of the fund is to be reinvested in the fund.
- b. Definition of Emergency. This fund can only be used to help repair a fault caused by a true emergency as defined by a three-fourths ($\frac{3}{4}$ ths) vote of all the members of the Board of Directors.
 - c. Declaration of Emergency. The Board of Directors is responsible for determining an "Emergency" and approving the use of funds from this account. Use must be approved by at least a three fourths ($\frac{3}{4}$ ths) majority of the entire Board (including the vote of the Board President). In these instances each Area has two (2) votes regardless of the number of representatives on the Board at that time, plus one (1) vote by the Board President.
 - d. Use of Emergency Fund. This fund can only be used to repair areas where normal maintenance would not have prevented failure. This fund cannot be used to pave the dirt roads. Once a failure occurs, it could be used to affect a repair which would help prevent future failure. This fund is for the repair of any dedicated common area in Knob Creek. By Common Areas, we mean the roads and other dedicated areas available for use by all property owners. For instance, the pond on Willow Ridge Road is a common area, as is Three Mile Knob Road hill, and both would qualify for use of the fund if failure would occur. The emergency fund shall not be used for the final or top coating of any road repair. The final top coating will come from the regular maintenance budget of the respective Area.

Article VII

Duties of Members

Section 1. Payment of Assessments. The charges or assessments levied by the Association as provided in Article VII of the Declaration shall be paid to the Association on or before the date fixed by resolution of the Board. Written notice of the charge and the date of payment shall be sent to each Owner at the address last given by the Owner to the Association.

Section 2. Collection and Lien. The amount of the assessment levied by the Association shall be paid to it on or before the date or dates fixed by resolution of the Board. If not so paid, the amount of such assessment, plus any other charges thereon, including interest at the maximum limit provided by law per annum from the date of delinquency and costs of collection, including attorney fees, if any, shall constitute and become a lien on the Lot so assessed when the Board causes to be recorded in the office of the appropriate County Recorder of Deeds, a notice of assessment which shall state the amount of such assessments and such other charges and a description of the Lot which has been assessed. Such notice shall be signed by the Secretary of the Association on behalf of the Association. Upon payment of said assessment and charges, or other satisfaction thereof, the Board shall, within a reasonable time, cause to be recorded a further notice stating the satisfaction and the release of said lien.

Section 3. Priority of Lien. Conveyance of any Lot shall not affect any lien for assessments provided herein. Such lien shall be prior to all other liens recorded

subsequent to said notice of assessment.

Section 4. Enforcement. The Lien provided for herein may be foreclosed by suit by the Association in like manner as mortgage and, in such event, the Association may be a bidder at the foreclosure sale. The Association may also pursue any other remedy against any Owner owing money to it which is available to it by law or equity for the collection of debt.

Section 5. Proof of Payment. Upon request, the Association shall furnish a statement certifying that all assessments then due have been paid or indicating the amount then due.

Section 6. Suspension. The Association shall not be required to transfer memberships on its books or to allow the exercise of any rights or privileges of membership on account thereof to any owner or to any person claiming under them unless or until all assessments and charges to which they are subject have been paid.

Article VIII

Indemnification of Directors and Officers

Section 1. The Association shall indemnify and hold harmless each person who shall serve as a Director or Officer of the Association from and against all claims and liabilities to which said person shall become subject by some reason of his/her having been a Director or Officer of the Association, or by reason of any action alleged to have been taken or committed by him (or to him), as such, Director or Officer, and shall reimburse each person for all legal and other expense reasonably incurred by him in connection with any claim or liability arising out of his own negligence or willful misconduct.

Section 2. The right accruing to any person hereunder shall not exclude any other right to which he may be lawfully entitled, nor shall anything herein contained restrict the right of the Association to indemnify or reimburse such person in any proper case, even though not specifically herein provided for. The Association, its Directors, Officers, Employees, and Agents, shall be fully protected in taking any action or making any payment hereunder, or in refusing to do so, in reliance upon the advise of council.

Article IX

Standing Committees and Advisory Council

Section 1. The Board shall, as required, create or dissolve standing or ad hoc committees to serve specified duties and purposes. The Board shall create a permanent standing committee called the Environmental Control Committee. This Committee shall consist of two to three members of the Association, appointed by the Board, with responsibilities as outlined in Section IV (a) of the Declaration of Restrictive Covenants

for Knob Creek Homeowners Association.

Section 2. Qualifications. Chairpersons of standing or ad hoc committees shall be members or associate members of the Association in good standing. When chairpersons are unable to attend Advisory Council meetings, or their regular committee meetings, they shall assign a qualified vice-chairperson to serve in their stead.

Section 3. Recommendations and actions of all standing and ad hoc committees and the Advisory Council shall be forwarded to the Board for appropriate action as required.

Article X

Amendments

These By Laws may be amended by a majority of the quorum present at the Annual Meeting, a special meeting or by majority vote of those members who, after receiving the proposed change(s) along with a ballot via United States mail, return those ballots to the Association by the date specified in the ballot and/or cover letter. In the case of ballots issued by mail, however, it is understood that in order for the results to be binding, such mailings shall require a response from at least the same number of members as would constitute a quorum at a general or special meeting.