

of the Association, then such Person shall have adequate fidelity coverage against dishonest acts and the existence of such coverage shall satisfy the requirement of this paragraph. Any such fidelity coverage shall name the Association as an obligee, shall be written in such amount as the Executive Board shall deem appropriate, and shall contain waivers of any defense based on the exclusion of persons who serve without compensation from any definition of "employee" or similar term.

8.3.2. To the extent obtainable at reasonable cost, the Association shall maintain appropriate insurance to protect the Executive Board and officers of the Association from personal liability arising in connection with their duties and responsibilities in such capacities on behalf of the Association

8.3.3. The Association shall maintain workers compensation with respect to its employees, if any, as required by law.

The Association may obtain insurance against such other risks as the Executive Board shall deem appropriate.

9. RESTORATION OF ATTACHED TOWNHOMES AFTER CASUALTY.

9.1. Plans and Procedures for Restoration. The plans and specifications for any Restoration shall be prepared by an architect licensed in the State of North Carolina. All plans and specifications required in connection with any Restoration shall be subject to review and approval by the ARB. The Association's Representative may also be retained to assist the Association in obtaining bids for the restoration from responsible contractors. Unless the Association and a majority of the voting interests of the Owners of the damaged Attached Townhomes shall otherwise agree, plans and specifications for any Restoration shall be consistent with the then existing building plans.

9.2. Restoration by Association. If an Owner fails to cause the removal of debris and Restoration of Improvements as required by Section 8.1.5, the Association shall provide written notice of such deficiency to such Owner. If the problem has not been remedied within a reasonable time (as determined by the Executive Board), the Association shall have authority to cause such Restoration to be performed, and any expenses incurred by the Association in connection therewith shall be charged to such Owner and shall be an Individual Assessment against such Owner's Lot.

9.3. Association's Rights. The rights granted to the Association in this Article in the event of any loss, damage or destruction of an Attached Townhome constitute reasonable protections of property values and aesthetic appearance of the Attached Townhomes, and each Attached Townhome Owner agrees to comply with such terms, conditions and procedures as Association may impose.

9.4. Restoration Costs. "Restoration Costs" means the cost of repairing, replacing, restoring or reconstructing all loss, damage or destruction to the applicable portion of the Property

(including the deductible under any applicable insurance policies) or any part thereof, including all costs of adjusting the loss; inspections, investigations and reports as to the damage; permit and inspection fees, architectural and engineering fees; fees of the Association's Representative; demolition, removal and disposal fees; costs of securing and protecting the portions of the Property to be Restored; accounting fees and costs; and attorneys' fees and costs; construction costs, and the Association's fees and costs for reviewing the plans for the Restoration and holding and disbursing the insurance proceeds and other funds.

10. OTHER PROVISIONS RESPECTING ATTACHED TOWNHOMES. To the extent that Attached Townhomes are constructed on the Property, the following provisions shall apply.

10.1. Attached Townhome Services. In order to maintain a uniform appearance and high standards of Maintenance, the Association shall perform the Attached Townhome Services for the Attached Townhomes in a neat, orderly and attractive manner consistent with the standards set forth in Section 7.6. The cost of performing the Attached Townhome Services shall be an Attached Townhome Expense, and the Owner of each such Townhome shall be obligated to pay the Attached Townhome Assessment for its proportionate share of the Attached Townhome Expenses allocated to the Collection in which its Unit is located. However, the Association shall be entitled to reimbursement from an Owner of an Attached Townhome where the Attached Townhome Service is required as a result of the deliberate, negligent or intentional acts of the Owner or its Permitted Users.

10.2. Exterior Maintenance of Townhomes. The Association shall have the sole discretion to determine the time at which Exterior Maintenance for the Attached Townhomes shall take place, the manner, materials and color to be used. Exterior Maintenance of any individual Attached Townhome, which is necessitated by deterioration of existing paint or surface, shall also be the responsibility of the Association. If an Owner materially modifies the exterior of his or her Attached Townhome, then the Association shall not be responsible for Maintenance of any modified portion of the Attached Townhome exterior however, the Owner shall not be relieved of its obligation to pay the Attached Townhome Assessments.

10.3. Party Walls.

10.3.1. Repair and Maintenance Obligations. Wherever one Unit is separated from another Unit by a common, shared or party wall ("Party Wall"), the obligations of each Attached Townhome Owner with respect to its Party Walls shall be governed by this Section 10.3. Each Party Wall shall be the joint obligation of each of the Owners of the adjoining Attached Townhomes ("Party Wall Co-Owners"). Each Party Wall Co-Owner shall be responsible for the Maintenance of the surface portion of the Party Wall which is contained within its Attached Townhome. Any Maintenance and the like, including repairs to the paint, plaster or drywall or gypsum wall board on the surface portion of the Party Wall which is contained within an Attached Townhome, shall be the obligation of that Owner. Each Party Wall Co-Owner shall have the right to use the side of the Party Wall within the Owner's Lot and Attached Townhome in any lawful manner, including attaching structural or finishing materials to it; however, an Owner shall not

create windows or doors or place heating or air conditioning equipment in the Party Wall without the consent of the other Party Wall Co-Owner. Any consent given to a Party Wall Co-Owner to create openings in the Party Wall shall be subject to the right of the other Party Wall Co-Owner to revoke its consent on sixty (60) days prior written notice and close up such openings and/or remove such heating or air conditioning equipment. The Party Wall Co-Owners shall be jointly responsible for the structure of the Party Wall; i.e., Maintenance and Restoration of concrete block, rebar, mortar, tie beam, and all other elements of the Party Wall.

10.3.2. Easement. Each Party Wall Co-Owner hereby grants to the other Party Wall Co-Owner, its successors and assigns, a perpetual non-exclusive easement and right of entry over and across its respective Lot and Unit for the purposes of performing Maintenance and Restoration to the Party Wall, provided that any such easement is exercised after prior notice and during reasonable hours.

10.3.3. Party Wall Damage. To the extent not inconsistent with the provisions hereof, the general rules of law regarding party walls and of liability for property damage due to negligence or willful acts or omissions shall apply thereto. A Party Wall Co-Owner shall perform Restoration of its Party Wall whenever a condition exists which may result in damage or injury to Person or property if the Restoration work is not undertaken. The cost of reasonable Repair or Maintenance of a Party Wall shall be shared by the Party Wall Co-Owners on each side of such Party Wall. If a Party Wall is destroyed or damaged by fire or other casualty, a Party Wall Co-Owner on either side of the Party Wall may restore it, and if the Party Wall Co-Owner on the other side thereafter makes use of the Party Wall, such other Party Wall Co-Owner shall contribute to the cost of restoration thereof in proportion to such use; provided that the forgoing provision shall not prejudice the right of any Party Wall Co-Owner to seek a larger contribution from the other under any rule of law regarding liability for negligent or willful acts or omission.

10.3.4. Interest. Any amounts due and unpaid under this Section 10.3 shall bear interest at the rate of eighteen (18%) percent per annum from the date due until paid in full.

10.3.5. Association Help. If at any time any Attached Townhome Owner (hereinafter in this Subsection, the "Non Performing Owner") shall not be proceeding diligently with any Restoration required of it under this Declaration, then the other Attached Townhome Owner(s) shall give written notice to the Association specifying the respect in which such Non Performing Owner is not proceeding diligently with his or her Restoration work. If, upon expiration of thirty (30) days after the giving of notice, the Restoration work is not proceeding diligently, then the Association may perform such Restoration in accordance with the then existing building plans and may take all appropriate steps to carry out the same, including entry onto the Lot of any Owner to the extent necessary to perform the Restoration work. The Association shall be entitled to impose an Individual Assessment on the Party Wall Co-Owners responsible for the cost of such Restoration.

10.4. Indemnity. Each Townhome Owner agrees to indemnify the Declarant, the Association and the other Party Wall Co-Owner for injury or personal or property damage, when

such injury or damage shall result from, arise out of, or be attributable to its failure to perform or comply with its duties and obligations under this Article 10.

10.5. Transfer of Title. In any transfer of title to an Attached Townhome, the Owner of such Attached Townhome ("Grantor") and the purchaser ("Grantee") of such Attached Townhome shall be jointly and severally liable for all unpaid amounts pertaining to the Party Walls accrued up to the date of the conveyance without prejudice to the rights of the Grantee against the Grantor, but the Grantee shall be exclusively liable for those accruing after the conveyance. The lien rights of any Owner of an Attached Townhome against another Attached Townhome for amounts due under this Article 10 shall be subordinate to the lien of any First Mortgage, and Assessment by the Association. If the holder of a First Mortgage or other purchaser acquires title as a result of a foreclosure or deed in lieu of foreclosure of the First Mortgage, the purchaser and any successors and assigns shall not be liable for the amounts which became due prior to the acquisition of title in the foreclosure action. Any unpaid amounts which cannot be collected as a lien against any Lot by reason of the provisions of this Section shall be divided between Party Wall Co-Owners, payable by and a lien against both Lots sharing the Party Wall, including the Lot as to which the foreclosure (or conveyance in lieu of foreclosure) took place.

11. COVENANT FOR ASSESSMENTS AND OTHER AMOUNTS.

11.1. Obligation for Assessments. Each Owner, by execution of this Declaration or by acceptance of a deed or other instrument conveying title to a Lot, whether or not it shall be so expressed therein, is deemed to consent and agree to pay to the Association (or to any Person who may be designated by the Association to collect such monies) all Assessments and other charges required by this Declaration, including the following: (.1) Common Assessments; (.2) Attached Townhome Assessments; (.3) Stormwater Assessments; (.4) Special Assessments; (.5) Individual Assessments for any expense under the Code or this Declaration for which the Association becomes obligated to pay and pays on behalf of an Owner or otherwise is authorized by this Declaration; (.6) fines for violations of the provisions of this Declaration or other Governing Documents or Assessments levied against Owners for misuse and damage to the Common Areas by the Owners or their family members, Tenants, Guests, agents or contractors; (.7) Working Capital Contributions; (.8) late payment charges, interest on unpaid Assessments, costs of collection, including court costs, service charges, and attorneys' fees as provided in the Act, and charges for dishonored checks, all as established by the Board from time to time; and (.9) all other Assessments and charges imposed or allowed to be imposed by this Declaration. No Unit shall be assessed separately from the Lot on which it is situated.

11.2. Purpose of Assessments. The Common Assessment primarily is for the purpose of funding the Common Expenses of the Association, including monies allocated for reserve funds, for the Fiscal Year to which the Common Assessment applies and in accordance with the budget for that Fiscal Year adopted by the Association, although such Assessments may be used for payment of any Common Expenses as determined by the Board. The Attached Townhome Assessment primarily is for the purpose of funding the Attached Townhome Expenses of the Association for the Attached Townhomes, including monies allocated for reserve funds, for the

Fiscal Year to which the Attached Townhome Assessment applies and in accordance with the budget for that Fiscal Year adopted by the Association, although such Assessments may be used for payment of any Attached Townhome Expenses as determined by the Board.

11.3. Classes of Membership. The Declarant has the authority to create different classes of membership in the Association and to impose different levels of Assessments and other Assessments for different classes of membership pursuant to a Supplemental Declaration.

11.4. Amount of Assessments. The Association is at all times empowered to levy Common Assessments against the Lots and the Owners of Lots within the Property for the payment of Common Expenses; to levy Attached Townhome Assessments against the Attached Townhomes and the Attached Townhome Owners within the Property for the payment of Attached Townhomes Expenses and to levy such other Assessments as are authorized by this Declaration.

11.5. Budgets. All budgets of the Association shall be prepared and proposed in good faith and with the intent to cover all reasonably necessary Common Expenses and Attached Townhome Expenses for the applicable Fiscal Year of the Association, including reasonable reserves for replacement and deferred Maintenance. Prior to the beginning of each Fiscal Year, the Board shall adopt budgets for such Fiscal Year which shall estimate all of the Common Expenses and Attached Townhome Expenses of the Association during the Fiscal Year, including reserves.

The budget shall be based on the estimated Common Expenses for the Lots which have been declared to be part of the Property and any additional Lots reasonably anticipated to be added to the Property during the Fiscal Year to which the budget relates. In determining the budget for Attached Townhome Expenses, the budget be based on estimated Attached Townhome Expenses for the Attached Townhomes which have been declared to be part of the Property and have been conveyed by the Declarant or a Participating Builder and any additional Attached Townhomes reasonably anticipated to be added to the Property and conveyed by the Declarant or a Participating Builder during the Fiscal Year to which the budget relates.

The budgets shall also reflect the sources and estimated amounts of funds to cover such expenses, which may include any surplus to be applied from prior years, any income expected from sources other than the amount to be generated through Common Assessments and Attached Townhome Assessments.

The Board shall then establish the Common Assessments for each Lot and the Attached Townhome Assessment for each Attached Townhome and shall notify each Owner in writing of the amount, frequency, and due dates of such Assessments. The Board may round any Assessments charged by the Association to the nearest dollar.

The Board of Directors of the Association shall fix the date of commencement and the amount of the Assessments against each Lot or Attached Townhome for each Assessment period, to the extent practicable, at least thirty (30) days in advance of such date or period, except as to emergency Assessments. The Association shall at that time prepare a roster of the Lots, the Owners

thereof and the Assessments applicable thereto, which shall be kept in the office of the Association and shall be open to inspection by any Owner or First Mortgagee. In the event no such notice of a new Assessment is given, the Assessment amounts payable shall be equal to one hundred fifteen (115%) percent of the amount payable for the last quarter of the previous Fiscal Year, until changed in the manner provided for herein.

From time to time during the Fiscal Year, the Board may modify the budget. Pursuant to the revised budgets or otherwise, the Board may, upon written notice to the Owners, change the amount, frequency or due dates of the Assessments. In no event shall any such Assessment be due less than ten (10) days from the date of the notification of such Assessment.

11.6. Common Assessments. The Board of Directors shall assess all Lots for the actual and estimated Common Expenses incurred by the Association, which shall include a reasonable reserve for capital repairs and replacements, including capital reserves for repair and replacement of the Stormwater Control Measures, all as may be determined from time to time by the Board of Directors in accordance with this Declaration. Unless this Declaration, a Supplemental Declaration or any other recorded instrument shall provide otherwise, the Owner of a Lot shall become obligated to pay the full amount of the Common Assessment commencing on the day the Declarant or a Participating Builder conveys the Unit thereon to an Owner other than the Declarant or a Participating Builder. Prior to the time a Unit is constructed on a Lot and conveyed to a Person other than the Declarant or a Participating Builder, the Owner of a Lot shall be obligated to pay Common Assessments equal to fifty (50%) percent of the amount of the Common Assessment assessed against a constructed and conveyed Unit; provided, however, the Declarant may exercise its rights to pay the Operating Deficit under Section 11.22 in lieu of paying Common Assessments on its Lots. At the time that the budget for the Common Expenses is prepared by the Board as required by Section 11.5 above, the Board shall determine the amount of the Common Assessments that are applicable to each Lot for such Fiscal Year. In determining the amount of each Lot's Common Assessment, the Board may also consider the estimated income from Common Assessments on any additional Lots reasonably anticipated to be added to the Property by the Declarant during the Fiscal Year to which the budget relates.

11.7. Special Assessments for Common Expenses. In addition to the Common Assessments on the Lots, the Board of Directors may assess, from time to time, Special Assessments to defray, in whole or in part, (.1) unbudgeted expenses or expenses in excess of the amounts budgeted for Common Expenses; (.2) expenses incurred by the Association for repair, replacement or reconstruction of any Improvements on any portion of the Common Areas or Association Property, including the Stormwater Control Measures; (.3) expenses incurred by the Association for installation or construction of any Improvements in the nature of a capital improvement on any portion of the Common Areas or Association Property. In the event that the amount of the Special Assessments for Common Areas payable in any one Fiscal Year in the aggregate exceeds one hundred (100%) percent of the Common Assessments (including reserves) allocated to such Lot for the previous Fiscal Year, then such Special Assessments shall require the vote or written consent of a majority of the Board and the vote of a majority of the voting interests of the Owners present in person or by proxy at a duly called meeting of the Association. It is the

intent of this Section that any expenses costing less than the aforesaid amount be paid for by Common Assessments, with an appropriate adjustment to the budget of the Association and the Common Assessments assessed thereunder, if necessary. No action authorized in this Section 11.7 shall be taken without the prior written consent of the Declarant as long as the Declarant or any of its affiliates owns any property in the Community.

11.8. Attached Townhome Assessments. The Board of Directors shall assess the Attached Townhomes for the actual and estimated Attached Townhome Expenses incurred by the Association for the benefit of Attached Townhomes or Owners within a particular Collection, which may include a reasonable reserve for capital repairs and replacements, all as may be determined from time to time by the Board of Directors in accordance with this Declaration. Unless this Declaration, a Supplemental Declaration or any other recorded instrument shall provide otherwise, each Attached Townhome shall become obligated to pay the full amount of the Attached Townhome Assessment commencing on the day the Declarant or a Participating Builder conveys the Unit to an Owner other than the Declarant or a Participating Builder. Prior to the time an Attached Townhome is constructed on a Lot and conveyed to a Person other than the Declarant or a Participating Builder, the Owner of the Lot shall be obligated to pay Attached Townhome Assessments equal to fifty (50%) percent of the amount of the Attached Townhome Assessment assessed against a Unit; provided, however, the Declarant may exercise its rights to pay the Operating Deficit under Section 11.22 in lieu of paying the applicable Attached Townhome Assessments.

At the time that the budgets for Attached Townhome Expenses for each Collection are prepared by the Board as required by Section 11.5 above, the Board shall determine the amount of the Attached Townhome Assessments that are applicable to the Lots in such Collection for such Fiscal Year. In determining the amount of a Lot's Attached Townhome Assessments, the Board may also consider the estimated income from Attached Townhome Assessments on any additional Lots designated for Attached Townhomes which are reasonably anticipated to be added to the Property by the Declarant during the Fiscal Year to which the budget relates.

11.9. Special Assessments for Attached Townhome Expenses. In addition to the Attached Townhome Assessments, the Board of Directors may assess, from time to time, Special Assessments on the Attached Townhomes to defray, in whole or in part, (.1) unbudgeted expenses or expenses in excess of the amounts budgeted for Attached Townhome Expenses; or (.2) expenses incurred by the Association for installation or construction of any Improvements in the nature of a capital improvement to the Attached Townhomes in connection with Attached Townhome Services. No action authorized in the preceding sentence shall be taken without the prior written consent of the Declarant as long as the Declarant or any of its affiliates owns any property in the Community. In the event of a casualty or loss and the insurance proceeds are insufficient to pay the Restoration Costs or in the event the damage or loss resulted from an uninsured loss, then the Association may assess a Special Assessment against the Owners of the damaged Attached Townhomes in the same proportion which the Restoration Costs attributable to their Attached Townhomes bears to all Restoration Costs of the damaged Attached Townhomes.

11.10. Individual Assessments. Each Owner shall be liable to the Association for all damage to any portion of the Common Areas, Association Property or other Lots resulting from misuse, negligence, failure to Maintain or otherwise caused by the Owner, its Permitted Users or the Tenants, contractors, subcontractors, licensees, invitees, employees, directors, officers, family members or guests of either. The Association shall have the right to levy an Individual Assessment therefor against such Owner or Owners. The Association may also levy an Individual Assessment against an Owner to reimburse the Association for costs incurred in any enforcement action or in bringing any Lot or Unit into compliance with the Governing Documents. To the extent permitted by law, such Individual Assessment shall be a lien against the Lot as provided in Article 11 hereof and shall be subject to the provisions of the Act relating to notice, filing of a claim of lien, collection and enforcement of delinquent Assessments.

11.11. Future Development Property. No Assessments shall be imposed against any portion of the Future Development Property unless and until such portion of the Future Development Property is declared to be a Lot in a Supplemental Declaration by the Declarant and Owner of the Future Development Property, if other than the Declarant.

11.12. Due Dates. The Common Assessments and Attached Townhome Assessments shall be payable in advance in monthly installments, or, if so determined by the Board of Directors, in quarterly, semi-annual or annual installments. The Board shall have the right to collect Attached Townhome Assessments at more frequent intervals than the Common Assessments are collected. The Assessment amount (and applicable installments) may be changed at any time by the Board from that originally stipulated or subsequently adopted. The original Common Assessments and Attached Townhome Assessments for any Fiscal Year shall be assessed for the Fiscal Year (but may be reconsidered and amended, if necessary, at any time), but the amount of any revised Assessments to be assessed during any period shorter than a full Fiscal Year shall be in proportion to the number of months (or other appropriate installments) remaining in such Fiscal Year. The due date of any Special Assessments (whether relating to a Common Area or Attached Townhomes) shall be fixed in the Board resolution authorizing such Assessment.

11.13. Disapproval of Budgets. The Board of Directors shall adopt a proposed budget for the Association at least annually. Within thirty (30) days after the adoption of the proposed budgets for the Assessments, the Board shall provide to each Owner a copy of those budgets for the Assessment(s) applicable to the Owner's Lot together with a notice of an Owners' meeting to consider ratification of the budgets including a statement that the budgets may be ratified without a quorum. The Board shall set the date for such meeting not less than 10 days or more than 60 days after the mailing of the budgets and notice. Such meeting may, but need not be, combined with the annual meeting of the Owners. There shall be no requirement that a quorum of the Owners be present at the meeting in person or by proxy to vote on ratification of the budget (although a quorum must be present to vote on other matters). The budget for Common Expenses shall be deemed ratified unless at that meeting Owners having eighty (80%) percent or more of the total voting interests of the entire membership vote to reject such budget. The budget for Attached Townhome Expenses, as determined by the Board of Directors will be deemed approved unless Attached Townhome Owners having eighty (80%) percent or more of the total voting interests of

the Attached Townhome Owners in a Collection vote at a duly called meeting of the applicable Attached Townhome Owners to reject the budget. Only the Owners of Attached Townhomes within a Collection will be eligible to vote on the budget for Attached Townhome Expenses for such Collection. Notwithstanding the foregoing, in the event the proposed budgets are disapproved or in the event the Board of Directors fails for any reason to determine the annual budgets and to set the Assessments, then and until such time as the budgets and Assessment have been determined as provided herein, the budgets and Assessments will be the default budgets and default Assessments calculated in accordance with Section 11.14 of this Declaration.

The provisions of this Section shall not apply to, nor shall they be a limitation upon, any change in the Assessment incident to a merger or consolidation as provided in §2-121 of the Act.

11.14. Determination of Default Budget and Default Assessments. Upon the failure of the Board of Directors to adopt a budget, the default budgets and default Assessments will be increased to one hundred fifteen (115%) percent of the then-current budgets and Assessments.

11.15. Certificate of Payment. The Association shall, within ten (10) business days after receipt of a written request from an Owner, Mortgagee or the Owner's authorized agent, and for such reasonable charge as the Board may determine, furnish a certificate signed by an officer of the Association, or by a Person or employee of any Person employed by the Association and to whom the Association has delegated the authority to issue such certificates, setting forth whether the Assessments and other charges against a specified Lot have been paid. If such certificate states that an Assessment has been paid, such certificate shall be conclusive evidence of payment and is binding on the Association, the Board, and every Owner.

11.16. Monetary Defaults and Collection of Assessments.

11.16.1. Late Fees and Interest. If any Assessment is not paid within thirty (30) days after the due date, the Association shall have the right to charge the defaulting Owner a late fee of ten (10%) percent of the amount of the Assessment or Twenty (\$20.00) Dollars, whichever is greater, plus interest at the rate of 18% per year or the highest rate of interest allowed by the Act (whichever is lower) from the due date until paid. If there is no due date applicable to any particular Assessment, then the Assessment shall be due twenty (20) days after written demand by the Association.

11.16.2. Acceleration of Assessments. If any Owner is in default in the payment of any Assessment owed to the Association for more than thirty (30) days after written demand, the Association shall have the right to accelerate and require such defaulting Owner to pay to the Association the Assessments for the balance of the Fiscal Year, based upon the then existing amount and frequency of such Assessments. In the event of such acceleration, the defaulting Owner shall continue to be liable for any increases in the Assessments and for all other amounts payable to the Association.

11.16.3. Effect of Non-Payment; Lien Rights. No Owner shall be exempt

from liability for any Assessment for reason of non-use of the Common Area or such Owner's Lot, or abandonment or leasing of such Owner's Lot, or unavailability of the use or enjoyment of the Common Area. All Assessments and other charges shall be established and collected as provided in this Declaration. All Assessments and other charges remaining unpaid for thirty days (30) days or longer, together with late charges, interest, and the costs of collection thereof, including attorneys' fees, shall be charged on the Owner's Lot as provided in §3-116 of the Act and, upon filing of a claim of lien in the office of the clerk of Superior Court of the County in the manner provided in §3-116(g), shall be a continuing lien upon the Lot against which such Assessment is made until paid in full. The Association shall be obligated to comply with all conditions precedent set forth in the Act to filing a claim of lien for Assessments. The lien may be foreclosed by the Association in any manner permitted under the Act or by law. In the event a holder of a First Mortgage or other purchaser of a Lot obtains title thereto as a result of a foreclosure of a First Mortgage pursuant to a power of sale or judicial foreclosure, or by deed in lieu of foreclosure, such purchaser and its successors and assigns shall not be liable for the Assessments and other charges against such Lot which became due prior to the acquisition of title to such Lot by such purchaser. Each Assessment and other charges due hereunder, together with late charges, interest, the costs of collection thereof, including attorneys' fees, shall also be the personal obligation or corporate obligation of each Person who was Owner of the Lot at the time when the Assessment or other charge first became due and payable and may be collected by appropriate action at law. If more than one Person held an ownership interest in the Lot at the time the Assessment or other charge first became due, then each Person shall be both jointly and severally liable. An Owner's personal obligation for payment of such Assessments and other charges shall not become the personal obligation of a subsequent Owner unless expressly assumed by the subsequent Owner, although the lien shall continue against the Lot until the amounts due are paid. Upon payment in full of all sums secured by the lien, the Person making the payment is entitled to a satisfaction of the lien.

11.16.4. Collection and Foreclosure. The Association may bring an action in its name to foreclose its lien for Assessments in the manner a mortgage on real property is foreclosed pursuant to a power of sale under Article 2A of Chapter 45 of the North Carolina General Statutes. If the debt consists solely of fines imposed by the Association or of service, collection, consulting or administrative fees not authorized in this Declaration, then the Association may bring an action in its name to foreclose its lien for such Assessments by judicial foreclosure as provided in Article 29A of Chapter 1 of the North Carolina General Statutes. The Association may also bring an action at law against the Owner(s) personally obligated to pay the Assessments due the Association to recover a money judgment for such unpaid Assessments without waiving any claim of lien. The Association shall have such other remedies for collection and enforcement of Assessments as may be permitted by applicable law. All remedies are intended to be and shall be cumulative. The Association may pursue one or more of such remedies at the same time or successively. The Owner shall be liable to the Association for all costs and expenses incurred by the Association in connection with the collection of the Assessments due the Association, and the filing, administration, enforcement, or foreclosure of the Association's lien, including reasonable attorneys' fees and costs and costs of the action, and all sums advanced and taxes paid and payments made on account of superior Mortgages, liens or encumbrances by the Association in order to preserve and protect the Association's lien. In the event a judgment is

obtained, such judgment shall include all amounts provided above. The Association shall also be entitled to attorneys' fees and costs in connection with any alternative dispute resolution or appellate proceedings. The Board is authorized to settle and compromise the Association's lien if the Board deems a settlement or compromise to be in the best interest of the Association.

11.16.5. Rental and Receiver. The Association shall be entitled to the appointment of a receiver to collect the rent (.1) if the Unit is leased during the pendency of the foreclosure; or (.2) if an Owner, any family member or Permitted User remains in possession of a Unit after the claim of lien against a Unit is foreclosed, and the court in its discretion requires the Owner to pay a reasonable rental for the Unit.

11.16.6. Suspension of Rights of Delinquent Owner. In addition to any other rights and remedies of the Association as set forth in this Article 11, in the event an Owner is delinquent in payment of Assessments or other monetary obligations to the Association for more than thirty days (30) days, the Association may suspend: (.1) the voting rights of such Owner in Association matters, (.2) the right of such Owner, its family members, Permitted Users, licensees or invitees to use the Common Areas, Association Property and/or common facilities, and (.3) any "non-essential services" which are provided to, by, or on behalf of the Association to such Owner, its family members, Permitted Users, licensees or invitees until such time the Owner pays in full all obligations due to the Association, including delinquent Assessments. Prior to suspension of the foregoing rights, the Association shall give the Owner written notice of the delinquency, an opportunity to be heard, to present evidence and written notice of the decision in accordance with Article 13. For the purposes of this Declaration, "non-essential services" shall be defined as those facilities, services or amenities that are not absolutely necessary or crucial to the health or safety of the Owner, or Common Areas that are not required for legal access to or drainage for the Unit. Examples of non-essential services include cable, internet, telecommunications and wireless local area network system ("Wi-Fi") services, recreational facilities, and other facilities, services or amenities provided to, by or on behalf of the Association within the Common Areas or the Association Property, Lot Landscaping, Attached Townhome Services (as to the Attached Townhomes) either now or in the future, or such other facilities, services or amenities provided to, by or on behalf of the Association within the Common Areas or the Association Property as are designated as "non-essential services" in writing by the Board of Directors from time to time in its reasonable discretion.

11.17. Collection of Assessments. The Association shall have the legal duty and responsibility to collect and enforce payment of the Assessments owed to the Association by the Owner. Failure to send or deliver bills or notices of Assessments shall not relieve Owners from their obligations hereunder. All Assessments owed by the Owner of a Lot, together with late fees, interest, penalties, fines, attorneys' fees and other sums provided for herein shall accrue to the benefit of the Association.

11.18. Priority of Liens. To the extent allowed by law, the Association's lien shall relate back to the recording of this Declaration in the Registry. Any unpaid Common Assessments or Special Assessments for Common Expenses which cannot be collected as a lien against any Lot

by reason of the provisions of this Section shall be deemed to be a Common Expense divided among, payable by and a lien against all Lots, including the Lot as to which the foreclosure (or deed in lieu of foreclosure) took place. Any unpaid Attached Townhome Assessment or Special Assessment for Attached Townhome Expenses which cannot be collected as a lien against any Attached Townhome by reason of the provisions of this Section shall be deemed to be an Attached Townhome Expense divided among, payable by and a lien against all Attached Townhomes, including the Attached Townhome as to which the foreclosure (or deed in lieu of foreclosure) took place.

11.19. Association's Right to Collect Rents. To the extent not prohibited by law, if a Unit is occupied by a Tenant and the Owner is delinquent in paying any monetary obligation due to the Association, the Association may make a written demand that the Tenant pay to the Association the subsequent rental payments and continue to make such payments until all monetary obligations of the Unit Owner related to the Unit have been paid in full to the Association. The Tenant must pay the monetary obligations to the Association until the Association releases the Tenant or the Tenant discontinues tenancy in the Unit.

11.19.1. The Association must provide the Tenant a notice, by hand delivery or United States mail, in substantially the following form:

"Pursuant to Section 11.19 of the Declaration of Covenants, Restrictions and Easements for Cannon Crossing, the Association demands that you pay your rent directly to the Association and continue doing so until the Association notifies you otherwise.

"Payment due the Association may be in the same form as you paid your landlord and must be sent by United States mail or hand delivery to ...(full address)..., payable to...(name)....

"Your obligation to pay your rent to the Association begins immediately, unless you have already paid rent to your landlord for the current period before receiving this notice. In that case, you must provide the Association with written proof of your payment within 14 days after receiving this notice and your obligation to pay rent to the Association would then begin with the next rental period."

11.19.2. The Association must deliver written notice to the Owner of the Association's demand that the Tenant make payments to the Association.

11.19.3. The Association shall, upon request, provide the Tenant with written receipts for payments made.

11.19.4. The Owner/landlord hereby releases and waives any claim against the Tenant and Association related to the rent paid by the Tenant to the Association after the Association has made written demand on the Tenant as a result of the Owner's delinquency in paying any monetary obligation due the Association. Each Owner/landlord hereby indemnifies and agrees to hold harmless the Tenant, Association and its officers and directors from any and all

claims, liabilities, losses, costs, injuries, and expenses (including attorneys' fees and costs at trial and appellate levels) arising out of or related to any claim related to the rent paid by the Tenant to the Association after the Association has made written demand.

11.19.5. If the Tenant paid rent to the Owner/landlord for a given rental period before receiving the demand from the Association and provides written evidence to the Association of having paid the rent within fourteen (14) days after receiving the demand, the Tenant shall begin making rental payments to the Association for the following period and shall continue making rental payments to the Association to be credited against the monetary obligations of the Unit Owner until the Association releases the Tenant or the Tenant discontinues tenancy in the Unit.

11.20. Use of Common Areas. In addition to the rights of collection of Assessments stated in this Article, any Person acquiring title to or any interest in a Lot as to which the Assessments are delinquent, other than Persons acquiring title by foreclosure of a First Mortgage pursuant to a power of sale or judicial foreclosure or by or deed in lieu of foreclosure, shall not be entitled to use, occupy, or lease such Lot or enjoy the Common Areas until such time as all unpaid and delinquent Assessments due and owing from the selling Owner have been fully paid.

11.21. Common Areas and Certain Other Property. The following property shall be exempt from payment of Assessments: Common Areas, parks and similar open spaces, any Sub-Association Common Areas, land owned by or dedicated to the City or County or any other governmental entity and any land owned by a publicly-regulated utility company as long as such land is used for or in connection with the provision of utilities (exclusive of business offices, retail outlets and the like). In the event of any ambiguity or doubt as to whether any particular open space or other land is subject to assessment, the determination of the Declarant (or, if there is no Class B Voting Member, the Board of Directors of the Association) shall be final and conclusive (and not subject to later change unless the use of the property in question changes).

11.22. Declarant's Right to Fund Deficits: Credit for Overpayments. During the Declarant Control Period, Declarant may, but shall not be required to, pay Assessments on its Lots at the applicable rates or fund any Operating Deficit. In the event the Declarant elects to fund the Operating Deficit, the Declarant, at its option, may fund it by any one or more of the following means: (.1) payment to the Association; (.2) payment directly to a Person providing the services or materials to the Association, or (.3) providing, directly or indirectly, to or for the Association, services or materials related to Common Expenses (the value of which shall be determined by the Board in its reasonable discretion, giving due consideration to what the fair market value of such services or materials would be if they had been furnished by a Person other than Declarant). Declarant may change its election from time to time upon ninety (90) days prior written notice to the Association.

Declarant's election to fund Operating Deficits may be enforced against the Declarant and collected by the Association in the same manner as enforcement and collection of Assessments applicable to other Owners.

At the end of the Declarant Control Period, in the event Declarant elected to fund the Operating Deficit and Declarant's payments to the Association exceed its obligation thereunder, the Declarant, at its sole option, shall be entitled to receive from the Association either a refund of the amount of its overpayment or a credit toward payment of Assessments due and payable by Declarant thereafter for Lots owned by Declarant until the overpayment has been credited in full. Declarant may not charge or collect interest or any other charge or fee on any monies paid by the Declarant for Operating Deficits.

11.23. Association Working Capital Fund. The Declarant shall establish in the name of the Association a fund ("Association Working Capital Fund") for the purpose of having funds available for initial and non-recurring items, capital expenses, permit fees, licenses, utility deposits, advance premiums for insurance policies and coverages and other expenses for operation of the Association pursuant to this Declaration. Each Unit's Working Capital Contribution shall be collected at the time of closing or settlement of the sale of the Unit and transferred to the Association within ten (10) days thereafter. The Association shall have a lien against the Unit in the event the Working Capital Contribution for the Unit is not received by the Association within ten (10) days after closing or settlement of such Unit as provided in Article 11 and subject to the provisions of the Act relating to notice, filing of a claim of lien, collection and enforcement of delinquent amounts due the Association. A Unit's Working Capital Contribution shall not be considered as advance payment of Common Assessments and Attached Townhome Assessments (if applicable). Notwithstanding the foregoing, the Declarant shall have the right to use the Association Working Capital Fund to pay for Common Expenses and Attached Townhome Expenses of the Association during the Declarant Control Period. In the event the Declarant, a Participating Builder or purchasing Owner fails to satisfy its obligations under this Section 11.23, the defaulting party shall indemnify the Association for the amount of the Unit's Working Capital Contribution which such purchasing Owner failed to pay or which the Declarant or Participating Builder failed to collect and transfer to the Association hereunder.

11.23.1. Initial Working Capital Contribution. Each time the Declarant conveys a Unit to a purchaser other than a Participating Builder, the Declarant shall collect from the purchaser of the Unit an amount equal to two (2) months of Common Assessments and Attached Townhome Assessments (if applicable) assessed by the Association to the purchaser's Unit ("Working Capital Contribution"). Each time a Participating Builder conveys a Unit to a purchaser, the Participating Builder shall collect from the purchaser of the Unit the amount of the Unit's Working Capital Contribution.

11.23.2. Resale Working Capital Contribution. In addition, a Working Capital Contribution is due the Association on each subsequent sale, resale, transfer or conveyance of a Unit. Except for a transfer of a Unit pursuant to a foreclosure of a First Mortgage or a deed in lieu of foreclosure), each time a Unit is sold, resold, transferred or conveyed to a purchaser whether by deed, certificate of title, trustee's deed or operation of law, the Owner who acquires the Unit shall be obligated to remit to the Association the amount of the Unit's Working Capital Contribution.