

BY LAWS OF

SUNSET HILLS PROPERTY OWNERS ASSOCIATION, INC.

SUNSET HILLS HOMEOWNERS ASSOCIATION, INC. (herein referred to as "The Association") is established and shall function as the management entity for the subdivision known as Sunset Hills located in Buncombe County, North Carolina.

ARTICLE I

PURPOSES AND POWER OF ASSOCIATION

Section 1: Purpose:

To provide for the common interest of the Sunset Hills Estate Community insuring the integrity of the subdivision. The Association shall have the power to enforce protective covenants in an equitable and consistent manner.

Section 2: Powers:

The Association shall have the power and authority stated in the Articles of Incorporation and, in particular, the power and authority to:

- 1) Adopt and amend these Bylaws pursuant to the terms of these Bylaws.
- 2) Adopt and amend budgets for revenues, expenditures and reserves, and collect assessments for common expenses from owners/members.
- 3) Hire and terminate agents and independent contractors to carry out the purposes of The Association.
- 4) Institute, defend or intervene in its own name in litigation or administrative proceedings on matters affecting the project.
- 5) Make contracts and incur liabilities.
- 6) Regulate the use, maintenance, repair, replacements and modification of subdivision streets, water wells and common areas.
- 7) Acquire, hold, encumber and convey in its own name any right, title or interest to real property designated as common areas, if any. The Association shall not acquire or hold any other

interest in real or personal property except as allowed by these by-laws or by member vote.

- 8) Grant easements, licenses and concessions through or over those interests acquired pursuant to number (7) above.
- 9) Impose charges for the late payment of assessments and after notice and an opportunity to be heard, levy reasonable fines for violations of The Association Bylaws.
- (10) Provide for the indemnification of and maintain liability insurance for its officers and Board of Directors.
- (11) Exercise all other powers that may be exercised in this state by legal entities of the same type as The Association.

ARTICLE II

Jurisdiction and Authority

The Association is established in conformity with the covenants and deed restrictions which have been incorporated in the title to each parcel of land within the subdivision (as acquired from Rainbow Management Service, Inc.) known as Sunset Hills, located in Buncombe County, North Carolina. The geographic limitations of the subdivision (hereinafter referred to as the "Subdivision Jurisdiction") include the following parcels (references are to plats recorded in the Register of Deeds Office, Buncombe County North Carolina):

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The Association shall consist of members (as hereinafter defined) owning parcels in the above-stated sections of the subdivision. The geographic and membership limitations of The Association shall not be extended further in the event of additional development by Rainbow Management Services, Inc., or its successors, except upon a written two-thirds affirmative vote of The Association membership.

ARTICLE IIIMembership of AssociationSection 1. Owners as Members:

The record owners of each parcel of land within the Subdivision Jurisdiction of The Association shall be members (hereinafter "owners" or "members") of this Association. Each owner shall be entitled to vote on the election of the Board of Directors, and all other matters coming before the members of The Association for vote. If more than one persons are the owners of any single parcel of land within the Subdivision Jurisdiction, there shall be only one membership for such parcel of land and the voting rights in the Association with reference to such parcel of land shall be exercised jointly by such record owners if they be two in number, or by a majority if they be three or more in number. However, these membership voting rights are limited as follows:

- 1) Rainbow Management Services, Inc., their heirs, successors or assigns shall be entitled to no more than one vote on any matter brought before the membership for vote;
- 2) The record owners of two or more contiguous parcels of land within the Subdivision Jurisdiction shall only be entitled to a single Association membership for any such contiguous parcels of land;
- 3) Owners (association members) who are more than ninety days delinquent in payment of properly assessed dues or assessments may not vote on any matters to come before The Association membership for vote until such time as any such delinquency has been satisfied.

Section 2. General Meetings:

General membership meetings shall be held during the months of January, April, July, and October of each year. In the event that a quorum representing 50% of the membership is not present at a general meeting, any motions duly made and passed by a majority of those present shall be binding unless objected to in writing by ten members within 15 days after the minutes have been distributed. If, in the opinion of a majority of the Board of Directors, there is no matter of importance to present to the membership at either the April or July regular meetings, such meetings may be cancelled by written notice to the membership.

Section 3. Special Meetings

Special membership meetings may be called either by the Chairman with the concurrence of 2/3 of the Board of Directors, or by any nine members submitting a petition to the Board of Directors. Written notice of the time, place and subject of a special meeting will be mailed to each member no less than ten days prior to the meeting and no other items may be placed upon the agenda.

ARTICLE IV

Board of Directors

Section 1. The affairs of the Association shall be governed by a Board of Directors seven (7) in number.

Section 2. The Board of Directors shall have the powers and duties necessary for the administration of the affairs of the Association and may do all such acts and things as are not by law or by these Bylaws prohibited in order to carry out said administration.

Section 3. Election of Directors:

On or before October 1st of each year, the Chairman, with the consent of the Board of Directors shall appoint a nominating committee consisting of at least three members who are not Directors or officers. Additional nominations may be made in writing to the Secretary by any two members at any time prior to the October general meeting. Nominations may not be made from the floor at the time of the election. The nominating committee shall submit its slate of candidates to the membership at least 15 days before the October general meeting.

Election of Officers will take place at the regular general meeting held in October of each year. For purposes of this meeting, a quorum will consist of at least fifty percent of the eligible members being present or represented by written proxy filed with the Secretary. In the event that no quorum is present at the meeting, the Secretary shall mail ballots to each member within one week following the meeting and all ballots must be returned within fifteen days thereafter to be counted. The election shall then be decided on the basis of the timely received ballots as counted by the Board of Directors at their next regular meeting.

Section 4. Term of office:

Each director shall serve a two year term of office. No individual may serve as director for more than two consecutive

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terms of office. Terms of office shall commence on January 1st and end on December 31st of the appropriate year. Three directors shall be elected to serve beginning in each odd numbered year, and four directors shall be elected to serve beginning in each even numbered year.

Section 5. Eligibility:

Directors must be an adult member of the immediate family of a qualified voting member of The Association. No individual having a financial interest in Rainbow Management Services, Inc. or its heirs or assigns may serve as an officer or director. A maximum of one voting member per lot can be on the Board at the same time.

Section 6. Vacancies:

Any vacancies occurring during the year shall be filled by an appointment to be determined by a majority vote of the Board of Directors. All appointments shall be for the remaining part of the calendar year in which the vacancy occurs and a permanent replacement shall be elected at the next following regular election to serve the remaining unexpired term of the vacant Directors position.

Section 7. Removal from Office.

Any Director may be removed from office upon the recommendation of a majority of the other Directors, and ratified by a majority vote of the members in attendance at any regular meeting or special meeting called for that purpose.

Section B. Meetings:

Meetings of the Board of Directors shall be held monthly or as called by the Chairman. A quorum of a majority of Directors will be required to conduct business. The Chairman shall not vote on any motions, except in the event of a tie.

Section 9. Chairman:

The Chairman shall conduct all meetings of the Board of Directors and of the general membership in accordance with Robert's Rules of Order. He shall be, at all times, a member of the Board of Directors, shall serve as Chairman for one year, and may not succeed himself. He shall, with the concurrence of the Board, appoint all ad-hoc committees and be authorized to represent the Association in all matters which have been approved by the Board. He shall set the dates, times and places of all meetings in accordance with these Bylaws and prepare an agenda for each meeting. He shall appoint the Nominating Committee and recommend to the Board candidates for any vacancies that might occur between elections. He shall be responsible for the timely filing of all forms and reports required by governmental agencies and for the prompt referral of any legal matters that affect The Association.

Section 10. Duties of Directors:

The Board of Directors shall be the governing body of the Association in accordance with these Bylaws and with the covenants and deed restrictions in effect throughout the subdivision. They shall appoint a Chairman and Vice-Chairman from amongst themselves and ratify or reject committee appointments submitted by the Chairman. They shall adopt an annual budget for subdivision roads and water well maintenance and repair for submission to the membership, an annual administrative budget for the expenditures of regular dues, and approve all expenditures before they are paid.

Section 11. No member of the Board of Directors shall receive any compensation for serving in said capacity.

Section 12. Members of the Association shall be entitled to attend all meetings of the Board of Directors and be heard upon matters under consideration by the Board at such meeting.

Section 13. In the performance of their duties, the members of the Board of Directors shall be deemed to stand in a fiduciary relationship to the Association and the Owners and shall discharge their duties in good faith and with that diligence and care which ordinarily prudent men would exercise under similar circumstances in like positions.

ARTICLE V

Officers

Section 1. The principal officers of The Association shall be a President, a Vice-President, a Secretary, and a Treasurer. The chairman of the Board of Directors shall serve as President and the Vice-Chairman of the Board of Directors as Vice-President during their respective terms of office. The Directors may appoint an Assistant Treasurer and an Assistant Secretary and such other officers as in their judgement may be necessary.

{ Section 2. The Secretary and Treasurer of The Association shall be elected annually by The Association members at the annual meeting.

Section 3. Upon an affirmative vote of a majority of the members of the Board of Directors, any officer may be removed, with or without cause, and his successor elected at any regular meeting of the Board of Directors or at any special meeting of the Board called for such purpose. Any officer whose removal has been proposed shall be given an opportunity to be heard. Any removal shall be ratified by a majority vote of the members of The Association at a properly called regular or special meeting.

Section 4. The President shall be the chief executive officer of The Association. He shall have all of the general powers and duties which are usually vested in the office of President of an association, including but not limited to the powers to appoint committees from among the owners from time to time as he may in his discretion decide is appropriate to assist in the conduct of the affairs of The Association.

Section 5. The Vice-President shall take the place of the President and perform his duties whenever the President shall be absent or unable to act. If neither the President nor the Vice-President is able to act, the Board of Directors shall appoint some other member of the board to do so on an interim basis.

Section 6. The Secretary shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of The Association. In addition, he/she shall have charge of such books and papers as the Board of Directors may direct and he shall, in general, perform all the duties incident to the office of Secretary, including the determination of meeting quorums and the mailing of ballots, meeting notices and minutes to members.

Section 7. The Treasurer shall have responsibility for Association funds and securities and shall be responsible for keeping full and accurate accounts of all receipts and disbursements in books belonging to The Association and shall be responsible for the deposit of all monies and other valuable effects in the name and to the credit of The Association in such depositories as may from time to time be designated by the Board of Directors. He shall pay all bills of The Association after approval of the Board of Directors, provided that such expenditures have been appropriated in The Association budget. He shall render a complete financial report to the Board of Directors at each monthly Directors meeting, and to the membership no less frequently than annually. At such times as the total assets exceed \$10,000.00 the Treasurer will obtain a Fidelity Bond at the expense of The Association in an amount not less than 150% of the value of funds held in his custody. The Treasurer will cause to be filed all necessary tax returns and documents required by any governmental agency in a timely manner. The Treasurer shall be a member of the Budget and Finance Committee.

Section 8. All agreements, contracts, deeds, leases, notices and other instruments to be executed on behalf of The Association shall be executed by any two officers of The Association or by such other person(s), firm(s) or corporation(s), including any management agent, as may be designated by the Board of Directors. Checks drafted by The Association may be executed solely by the Treasurer of the corporation, or by any other individual member of the Board of Directors as determined by the Board of Directors.

Section 9. No officer shall receive any compensation for serving in said capacity.

Section 10. In the performance of their duties, the officers shall be deemed to stand in a fiduciary relationship to The Association and the owners and shall discharge their duties in good faith and with that diligence and care which ordinarily prudent men would exercise under similar circumstances in like positions.

ARTICLE VI

Standing Committees

The following permanent standing committees shall be maintained by The Association and shall serve to advise the Board of Directors in the conduct of Association business:

1. Legal Committee:

Consisting of the Chairman of the Board of Directors as Chairman and two other members of the Association who are not members of the Board of Directors. This Committee shall interview and select legal counsel to represent The Association as may be required. Fees for such counsel shall be included in the annual budget. In addition, this committee shall represent, with or without legal advice, The Association in all dealings with Rainbow Management Services, Inc., or its successors and shall advise the Board concerning enforcement of covenants.

2. Budget & Finance Committee:

Consisting of the Vice-Chairman of the Board of Directors as Chairman and two additional members of the Board. This Committee shall prepare and submit to the Board of Directors, on or before December 1 of each year, a proposed budget for the ensuing year. Said budget shall provide for the operating expenses of The Association and establish a recommended level of dues to be collected. Furthermore, they shall meet with the Road and Water Wells committee and, together, prepare a separate budget for the maintenance of roads and water wells within the subdivision and the related amount of assessments to be levied for that purpose for submission in writing to the membership for approval prior to the beginning of each year. Amendments to either budget may be proposed during the year in the same manner as specified for amendments to these Bylaws.

3. Road and Water Wells Committee:

Consisting of two members of the Board of Directors and one member who is not on the Board of Directors. The Committee shall inspect and monitor all roads and water wells within the subdivision, obtain bids and estimates for repairs and

maintenance, determine traffic regulations, and consult, when necessary, with engineering and traffic experts. They shall advise the Board of Directors on all matters concerning roads and water wells with The Association property and, in conference with the Budget & Finance Committee, shall prepare budgets for road and water well maintenance. It is the intent that this committee in cooperation with the Budget and Finance Committee shall be responsible for all duties formerly the responsibility of the unincorporated Sunset Hills Water Associations, one through six.

No Board member may serve on more than two permanent committees. The Chairman of the Board, with the consent of other Board members, shall appoint all permanent committee members and they shall serve only so long as that Chairman is in office or they otherwise become disqualified, whichever is first. Any other committees deemed necessary shall be ad-hoc committees appointed by the Chairman and automatically terminate at the end of each calendar year.

ARTICLE VII

Assessments, Dues and Special Fees

Section 1. Regular Street Assessments:

Assessments may be levied only to provide funds for the maintenance of roads and rights-of-way and water wells within the subdivision and only in amounts recommended by the Board of Directors and approved in the same manner as set forth in Article X of these By-laws for the approval of By-Law amendments.

Section 2. Special Dues and Assessments:

Special assessments or dues for extraordinary purposes may be levied by the Board of Directors only after calling a special membership meeting for the purpose of discussing the proposed levy and obtaining a written affirmative vote of a least 2/3 of all members eligible to vote.

Section 3. Default in Payment of Assessments:

If an owner shall be in default in the payment of an installment upon an assessment, The Association may accelerate the remaining installments of the current year's assessment upon notice to the Owner and then the unpaid balance of the current year's assessment shall come due upon the date stated in the notice, but not less than ten (10) days after delivery of the notice personally to an Owner nor less than twenty (20) days after mailing of such notice to him by registered or certified mail, whichever shall

occur first.

Section 4. Collection on Assessments:

All unpaid assessments shall bear interest at the rate of twelve (12%) per annum after thirty (30) days from time the same are due. In addition, delinquent Owners shall be liable for the costs to The Association, including reasonable attorney fees, of collection of such unpaid assessments and any other fees, charges, late charges, fines and interest charged pursuant to these Bylaws. Any such assessments, fees, charges, late charges, fines, interest and attorney fees levied against an Owner remaining unpaid for a period of thirty (30) days or longer shall constitute a lien on that Owner's parcel of land when filed of record in the Office of the Clerk of Superior Court of Buncombe County, North Carolina, in the manner provided by Article 8, Chapter 44 of the General Statutes of North Carolina. The Association's lien may be foreclosed in like manner as a mortgage on real estate under power of sale pursuant to Article 2A of Chapter 45 of said General Statutes.

Section 5. Dues:

In addition to assessments for road, right-of-way and water well purposes, dues for membership in The Association may be set by the Board of Directors to defray the operating costs of The Association in an amount not to exceed the sum of \$100.00 per year per lot within the subdivision, except that two or more contiguous lots under the same ownership shall be assessed as one lot.

Section 6. Collection of Dues:

Annual dues, in an amount determined by the Board of Directors in accordance with these Bylaws, shall be due and payable on January 1 of each year and become delinquent thirty days thereafter. The Association shall not be required to transfer memberships on its books or to allow the exercise of any of the rights or privileges of membership on account of any lot owner, or to any person claiming under them, until all dues and assessments to which they are subject have been paid. The Association may also pursue any remedy against any owner owing money to it which is available by law or equity for the collection of debt.

ARTICLE VIII

Obligation of owners

Section 1. All Owners of parcels of land within the Subdivision Jurisdiction are obligated to pay annual dues, regular street assessments or special assessments imposed by The Association to meet all current expenses of and reserve funds established with reference to the Subdivision Jurisdiction.

Section 2. If any owner is responsible for any damage on any of the Subdivision Jurisdiction road rights-of-way or water wells, The Association may direct such owner to repair such damage or The Association may itself cause the repairs to be made and recover the costs thereof from the responsible owner.

ARTICLE IX

Liability of Officers and Directors of The Association

The officers and members of the Board of Directors of The Association, designated or elected as provided in these Bylaws shall not be liable to the Owners for any mistake of judgment, negligence or otherwise, except for conduct violative of Article IV, Section 13 or Article V, Section 10, of these Bylaws. The Owners shall indemnify and hold harmless each of the officers and members of the Board of Directors against all contractual liability to others arising out of contracts made by the officers and Board of Directors, unless their conduct in doing so is violative of said Article IV, Section 13 or Article V, Section 10. It is intended that the officers and members of the Board of Directors shall have no personal liability with respect to any contract made by them on behalf of The Association. It is also intended that the liability of any Owner arising out of any contract made by the officers and Board of Directors or out the aforesaid indemnity in favor of such officers or members of the Board of Directors shall be limited to such proportion of the total liability thereunder as his interest relates to the whole Subdivision Jurisdiction. In entering into any agreement the officers or members of the Board of Directors, as the case may be, are acting only as agents for the Owners and shall have no personal liability thereunder (except any such liability as owners) and any such Owner's liability under such agreement shall be limited to such proportion of the total liability thereunder as his interest relates to the whole Subdivision Jurisdiction.

ARTICLE X

Amendments to Bylaws

Amendments to these Bylaws may be proposed by the Board of Directors or by petition to the Board by any nine or more members of The Association. Proposed amendments shall be circulated in writing to each member and a special meeting shall be called by the Chairman to discuss the proposals. If, at the special meeting, a majority affirms the proposals, they shall be submitted to the membership within fifteen days of the meeting along with a ballot upon which each member may vote aye or nay. Ballots returned to the Secretary within 15 days of the date upon which they are mailed

or delivered shall be certified and counted by the Secretary and the Board of Directors and, if they are approved by at least 2/3 of those ballots returned, the proposed amendments shall be adopted. A proposed amendment may not be submitted more often than once in any one calendar year for consideration.

ARTICLE XI

Compliance

These Bylaws are set forth to comply with the requirements of the General Statutes of North Carolina. In case any of these Bylaws conflict with the provisions of said statutes, it is hereby agreed and accepted that the provisions of said statutes will apply.

THIS THE _____ DAY OF OCTOBER, 1993.

SECRETARY