

ARTICLE VII

Indemnification of Directors and Officers

The Association shall indemnify such persons, for such expenses and liabilities, in such manner, under such circumstances, and to such extent, as permitted by the North Carolina General Statutes, as now enacted or hereafter amended. In addition, the Association is authorized to maintain Officers and Directors Liability Insurance.

ARTICLE VIII

Fiscal Management

8.1. Depository. The Board shall designate a depository for the funds of the Association, and may change such depository at any time. Withdrawal of funds from such depository shall be only by checks signed by any two (2) officers of the Association, or as authorized by the Board. In the event the Board should engage the services of a managing agent, said agent shall be empowered to withdraw funds in accordance with the specific procedures adopted by said managing agent.

8.2. Fiscal Year. The Fiscal Year of the Association shall run the 1st of August through July 31st of the following calendar year provided that the Board, from time to time, by resolution, may change the Fiscal Year to some other designated period.

ARTICLE IX

Assessments

9.1. General Assessments and Additional Limited Assessments.

(a) Obligation of Members to Pay Assessments: Amount of Levy. Each Lot Owner shall be personally and severally liable for an assessment determined by dividing the total acreage of such Owner's Lot by the total acreage of all Lots within the Subdivision, and then multiplying by the total amount of the Association's Common Expenses as determined in the Board's discretion. The levy of an annual assessment noted above does not include any special assessment which may be levied against a Lot Owner in accordance with Section 9.7 below.

(b) Obligation of Some Members to Pay Additional Limited Assessment. Some Lot Owners as may be designated by Developer shall, in addition to the assessment provided for in paragraph 9.1(a) above, pay an additional limited assessment (herein "Limited Assessment") for such items and expenses which are unique and limited to that particular group or phase of Lots as designated by Developer. Each such designated Lot Owner shall be personally and severally liable for such additional Limited Assessment (in addition to the general assessment set forth above) determined by dividing the total acreage of such Owner's Lot by the total acreage of all Lots within the designated particular group or phase of Lots as determined in the Board's sole discretion at the time of the additional Limited Assessment, multiplied by the total amount of the Limited Common Expenses or Single Family Residential Limited Expense (if applicable) and such other expenses as may be shared by and unique to the designated particular group or phase of Lots. The levy of such Limited

Assessment noted above does not include any special assessment which may be levied against a Lot Owner in accordance with Section 9.7 below.

9.2. Allocation of Common Surplus. Any common surplus, including funds in reserve accounts, may be allocated to each Lot in accordance with its percentage of the share of assessments, and, if allocated, shall be owned by the Lot Owner, and, if allocated, may be paid to the Lot Owner or credited against that Lot's share of Common Expenses subsequently assessed. Notwithstanding the above, the Board shall retain the authority to apply said surpluses to any current Fiscal Year expenditures in order to satisfy the exempt function income qualification for Nonprofit corporations under Section 528 of the Internal Revenue Code.

9.3. Preparation of Budget and Levying of Assessment. Except as hereinafter provided, for each Calendar Year, beginning with the Calendar Year commencing on January 1, 2006, the Board shall prepare and adopt a budget, including therein estimates of the amount necessary to pay the Common Expenses, together with amounts considered necessary by the Board for reserves. After preparation and adoption of each such budget, the Board shall provide each member with a copy, and shall give each member notice of the assessment made against that member's Lot based upon such budget and may also state the interest to be charged on delinquent payments thereof (other than as provided in these Bylaws). The assessment shall be deemed levied upon the giving of such notice.

9.4. Assessment A Lien. Every assessment shall constitute a lien upon each Lot as set forth in the provisions of N.C.G.S. 47F-3-116, prior to all other liens except only (i) real estate taxes and other governmental assessments or charges against that Lot and (ii) liens and encumbrances recorded before the docketing of a claim of lien.

9.5. Payment of Assessments. Assessments shall be payable when notice thereof is given, but shall not be delinquent if paid at the times and in the amounts specified by the Board in the notice of assessment. Payments shall be made to the Association, or as the Board may from time to time otherwise direct. Unless the notice states contrary, annual assessments are typically due and payable in monthly installments at the first of every month.

9.6. Notice to First Mortgagees. Although the lien of assessments may be superior to the lien of a First Mortgagee, any enforcement of said assessment lien by the Association's filing of a collection or foreclosure action with the courts shall require the giving of notice to the applicable First Mortgagee, if any. All Owners of Lots acknowledge that such notice shall not constitute a violation of any state or federal unfair debt collection laws. Failure to give the notice provided for herein shall not be a defense for the defaulting member in the enforcement action filed by the Association.

9.7. Special Assessments. In addition to the assessments levied pursuant to Section 9.3., the Board, in its sole discretion during the Developer Control Period, may levy special assessments at such other and additional times as in its judgment are required for:

- (a) Alterations, restoration and reconstruction of Community Property and its facilities.
- (b) Improvements, acquisitions and additions to the Community Property.
- (c) Payment of costs and expenses incurred in curing defaults pursuant to

Sections 10.1. and 10.3. hereof.

Special assessments made pursuant to this Section shall be a Common Expense, shall be deemed levied upon notice thereof being given to the members subject to such special assessment and shall be payable as determined by the Board and as set out in such notice. After the Developer Control Period, the Board may levy special assessments only with the consent of 67% of the members voting.

9.8. Failure to Prepare Budget and Levy Annual Assessment: Deficiencies in Procedure. The failure of the Board or delay of the Board in preparing any budget, and to levy or in levying assessments, shall not constitute a waiver or release of the members' obligation to pay assessments whenever the same shall be determined and levied by the Board. Until a new assessment is levied by the Board pursuant to Section 9.3, each member shall continue to pay the assessment then previously levied pursuant to Section 9.3 in the same amount and at the same periodic times as levied, or as the Board may otherwise advise in writing. Also, any deficiencies or inadequacies in the procedure followed by the Board in levying an assessment shall not in any way affect its validity or the obligation of members to pay such assessment.

9.9. Assessment Roll: Certificate. All assessments shall be set forth upon a roll of the Lots which shall be available in the office of the Association for inspection at all reasonable times by members and Security Holders, and their duly authorized representatives. Such roll shall include, for each Lot, the name and address of the member or members, all assessments levied, and the amount of all assessments unpaid. The Association, upon written request, shall furnish to a Lot Owner, or his authorized agent, a recordable certificate setting forth the amount of unpaid assessments currently levied against his Lot. The certificate shall be furnished within fourteen (14) business days after receipt of the request and shall be binding upon the Association and all Lot Owners. For such certificate a reasonable fee may be charged by the Board. All Owners of Lots acknowledge that such notice provided in an assessment roll or certificate shall not constitute a violation of any state or federal unfair debt collection laws.

9.10. Default and Enforcement If any assessment, or installment thereof, remains delinquent for thirty (30) days, then that assessment, and all other assessments then a lien against that Lot, may be declared by the Board to be immediately due and payable in full, with interest, without further notice, and such lien may be enforced in accordance with Article 2, Chapter 44A of the North Carolina General Statutes, with Chapter 47A for liens on unpaid common expenses or such other relief allowed by law. All fees; late charges, attorneys' fees, fines or interest levied or collected by the Association in connection with any unpaid assessments shall have the same priority as the assessment to which they relate.

The Association also shall be entitled to suspend the right of a defaulting Lot Owner to use the Community Property, to the extent allowed by law, and its facilities until the delinquency is cured.

The remedies noted herein for default on assessments shall include, without limitation, any and all remedies set forth in the Restrictions. The failure of the Association to enforce any assessment delinquency shall not constitute a waiver or abrogation of the right of the Association or its agents to enforce such delinquency in the future, irrespective of the number

of breaches thereof that may have occurred by the member regarding assessments.

9.11. Interest on Delinquent Assessments. Assessments, or installments thereof, paid before they become delinquent, shall not bear interest, but any assessments which are not paid when due shall be delinquent. If the assessment is not paid within thirty (30) days of its due date, the Board may impose a late fee of the greater of: (i) twenty dollars (\$20.00) per month; or (ii) ten percent (10%) of any assessment installment unpaid. The Association may bring an action in law against the Owner personally obligated to pay the assessment and interest or foreclose the lien created therein in the same manner as described by the laws of the State of North Carolina for foreclosure of deeds of trust. Cost and reasonable attorney fees as provided for above for any such action shall be added to the amount of such assessment. No Owner may waive or otherwise escape liability for the assessment provided for herein by non-use of the Common Elements, or abandonment of his dwelling unit or Lot. In the event that an action at law results in a judgment being entered against the Owner of any Lot and in favor of the Association, the Association shall be further empowered to obtain execution on such judgment in a manner to the extent provided for and permitted by the laws of the State of North Carolina. The Association may delegate collection of delinquent assessments to a duly-appointed agent. All payments upon account shall be applied first to interest and then to the assessment, or installment thereof, longest delinquent. All such interest shall have the same priority as the assessment on which such interest accrues.

9.12. Common Expenses. Common Expenses shall mean and include all sums declared Common Expenses by any specific provision of these Bylaws or the Restrictions, and shall include, without limitation, the following: real estate taxes, and other governmental assessments or charges against the Common Elements; costs associated with the maintenance, repair and improvement of the Common Elements; premiums for any and all insurance maintained by the Association, including any deductible or coinsurance amount not covered by insurance; legal and accounting fees; costs and expenses incurred in connection with any litigation or administrative proceeding pursuant to Section 5.13(g) hereof; deficits remaining from any prior assessment period; the cost, including fees and interests, incurred in connection with any borrowing done by the Association; the cost of all fidelity bonds; costs imposed upon the Association as a result of the performance, enforcement or amendment of, any agreement or easement to which the Association is a party or to which the Common Element, or any part of either thereof, is or may be subject including, but not limited to amounts determined necessary for reserve funds; and indemnity payments made by the Association pursuant to Article VII hereof

9.13. Limited Common Expenses. Limited Common Expenses shall mean and include all sums declared to be Limited Common Expenses by any specific provisions of these Bylaws or the Restrictions, and shall include, without limitation, all costs expended for the care, maintenance and upkeep of Limited Common Elements. Assessment shall be in accordance with Section 9.1(b) above. Certain Lots within the Subdivision may be designated by Developer as benefiting from the Limited Common Elements more so than other Lots within the Subdivision. Such Lots so designated shall pay such Limited Common Expense assessments as may be required to maintain the Limited Common Elements.

ARTICLE X

Compliance, Enforcement, Fines and Penalties, Other Than Assessment Liens

10.1. Default and Remedies. A default in or failure to comply with any of the terms, conditions, obligations, and provisions of the Restrictions, these Bylaws, the Articles, or the rules and regulations, as the same may be amended from time to time, by any Lot Owner or Occupant, shall be grounds for relief that may include, without intending to limit the same or to constitute an election of remedies, an action to recover fines and penalties as determined by the Board, sums due for damages, an injunction, or any combination thereof, and which relief may be sought by the Association, an aggrieved Lot Owner, or by any person or class of persons adversely affected. Also, if any member fails to perform any obligation under the Act, the Restrictions, these Bylaws, the Articles or such rules and regulations as hereinafter promulgated, then the Association may, but is not obligated to, perform the same for the member's account, and for such purpose may enter upon his Lot, may make necessary repairs, advance expenses or other sums necessary to cure the default, and for such expenses and costs may levy a special assessment against the Lot owned by such defaulting member. The Association also shall be entitled to suspend the right of a defaulting Lot Owner to use the Common Community Areas and its facilities until the default is cured

10.2. Notice of Default and Failure to Cure. In the event of any such default or failure, the Board shall serve upon or mail to the defaulting member, and to each First Mortgagee of that member's Lot when required under Section 9.6 of these Bylaws, a written notice specifying the nature of the default or failure, the cure thereof, and the time within which the cure shall be effected. Within the time limit specified in the notice, the defaulting member may cure the default or failure specified, or serve upon or mail during the specified cure period a written notice to the Board requesting a hearing before the Board. If a hearing is so requested, the Board shall thereafter serve upon or mail to the defaulting member, and to each First Mortgagee which was entitled to notice of the default as above provided, a notice specifying the time and place for such hearing. At the hearing, the Board shall take such evidence and hear such testimony as it deems necessary or desirable. The Board shall not exercise any remedies to obtain relief from the default until the hearing is over and the Board has made its determination and served upon or mailed the same to the defaulting member and each such First Mortgagee. The hearing may be continued from time to time as determined by the Board. Upon taking such evidence and hearing such testimony, the Board, at the hearing or at such later time, shall determine, in writing, and at its sole option, to waive the default in whole or in part, to extend the time within which the default may be cured, or to proceed immediately to levy a fine or penalty, or to exercise any one or more of the remedies available to the Board due to such default. The Board shall serve upon or mail to the defaulting member, and to each such First Mortgagee which was entitled to notice of the default as above provided, a copy of its determination. A violating party shall have thirty (30) days to appeal a decision of the Board to a court of law and failure to file said appeal within thirty (30) days after receipt of the hearing determination or notice of default and cure if a hearing is not requested shall bar any challenges or any causes of action brought afterwards by said party. The Board's finding of default shall be conclusive in a case of a party's failure to appeal within the above prescribed time. If the defaulting member (i) does not cure the default or request a hearing within the time limit specified in the original notice of default given pursuant to this Section, or (ii) so requests a hearing, but fails to cure the default (to the extent not waived by the Board) within the extended time, if any, granted by the Board after hearing, then the Board shall serve upon or mail to the defaulting member, and to each such First Mortgagee which was entitled to notice of the default as above provided, a written notice of such member's failure to effect a cure, and the Board may then proceed to take such action as it deems necessary to obtain relief.

10.3. Remedy of Abatement in Addition to Other Remedies. In the event a member fails to effect the cure specified by the Board within the time period set out in Section 10.2. hereof, where the default is a structure, thing, or condition existing in or on the premises of the member's Lot, the Board, or its duly authorized representative, shall have the right to enter upon the premises of the member's Lot in which, on which, or as to which, such default exists, and summarily to abate and remove, at the defaulting member's expense (and levy an assessment therefor as provided in Section 10.1. hereof), the structure, thing, or condition constituting the default, and the Board, the Association, and their agents, employees, and representatives shall not thereby be deemed guilty of any manner of trespass.

10.4. Injunction. Any person or class of persons entitled to seek relief for any such default or failure may obtain a temporary restraining order, injunction or similar relief, without first using the procedure established by Section 10.2 hereof, if such default or failure creates an emergency or a situation dangerous to persons or property.

10.5. Recovery of Attorneys' Fees and Costs. In any proceeding arising because of an alleged default by a member, the prevailing party shall be entitled to recover the costs of such proceeding and such reasonable attorneys' fees as may be allowed by the court, with interest thereon at the higher of (i) 4% over the prime rate announced by Branch Banking & Trust Company at the time the costs are incurred and (ii) the highest rate allowed by law at the time the costs are incurred, from the dates such costs are incurred until paid.

10.6. Nonwaiver of Covenants. The failure of the Association or of any member thereof to enforce any term, provision, right, covenant, or condition that may be granted by the Restrictions, these Bylaws, the Articles, the rules and regulations or the Act, as the same may from time to time be amended, shall not constitute a waiver or abrogation of the right of the Association or a member to enforce such term, provision, right, covenant, or condition in the future, irrespective of the number of violations or breaches thereof that may have occurred.

10.7. Assessment Liens. Assessment liens shall be enforced pursuant to Article IX hereof and not pursuant to this Article X.

ARTICLE XI

Amendment

During the Developer Control Period, the power to alter, amend, or repeal the Bylaws or adopt new Bylaws shall be vested in the Board with Developer approval being necessary for any particular change. After the Developer Control Period has expired, the amendment of Bylaws or adoption of new Bylaws can only occur at a regular meeting of the Members and shall require: an affirmative vote of sixty-seven percent (67%) of all of the Members of the Association who own Single Family Residential Lots to such changes.

ARTICLE XII

General Provisions

12.1. Rules and Regulations.

(a) By the Board. The Board, including the first Board, may promulgate from time to time such rules and regulations as it deems reasonable and necessary governing the administration, management, operation and use of the Community Property so as to promote the common use and enjoyment thereof by Lot Owners and Occupants and for the protection and preservation thereof.

(b) By the Association. After the Developer Control Period has expired, any such rule or regulation adopted by the Board may be amended, modified, or revoked, and new and additional rules and regulations (subject to the same application allowed in subsection (a) of this Section 12.1) may be adopted, by members at an annual or special meeting of the members. Any such act of the members shall control over any contrary rule or regulation then or thereafter adopted by the Board.

(c) Uniform Application. All rules and regulations shall be uniformly applicable if it is determined that such unequal or non-uniform application is in the best interest of the Association or if equal and uniform application is not reasonable or practicable.

(d) Copies Furnished. Copies of all such rules and regulations and any amendments thereto shall be furnished to all members, and a copy shall be posted or otherwise made available to members at the office of the Association. However, failure to furnish, or post, or make available, such rules or regulations shall not affect in any way their validity or enforceability.

12.2. Parliamentary Authority. Robert's Rules of Order, Newly Revised, shall govern the conduct of Association proceeding when not in conflict with the Restrictions, these Bylaws, The Articles, the Act, or any statutes of the State of North Carolina applicable thereto. The President of the Association shall have the authority to appoint a parliamentarian.

12.3. Compliance with the Act: Conflict: Severability. These Bylaws are established in compliance with the Act. Should any of the terms, conditions, provisions, paragraphs, or clauses of these Bylaws conflict with any of the provisions of said Act, the provisions of said Act shall control unless the Act permits these Bylaws to override the Act, in which event these Bylaws shall control. In the case of any conflict between the provisions of these Bylaws and the Restrictions, the Restrictions shall control. If any term, provision, limitation, paragraph, or clause of these Bylaws, or the application thereof to any person or circumstance, is judicially held to be invalid, such determination shall not affect the enforceability, validity, or effect of the remainder of these Bylaws, or the application thereof to any other person or circumstance.

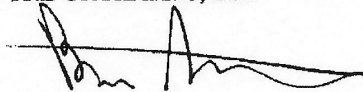
12.4. Form of Notice. Whenever in the Restrictions, the Act or these Bylaws it shall be required or permitted that notice or demand be given or served on the Association or a Lot Owner or a First Mortgagee or other party entitled to notice, such notice or demand shall be given in writing by registered or certified mail, postage prepaid, to the respective addresses

as hereinafter set forth. All notices or demands provided under the terms of the Restrictions, the Act or these Bylaws shall be effective when actually received by a party entitled to notice or when attempted to be delivered as authorized above. The addresses of a party entitled to notice may be changed, from time to time, by either party serving notice as above provided.

ARTICLE XIII

Effective Date. These By-Laws are effective as of March 28, 2006 and shall remain in full force and effect until amended in accordance with the terms set forth herein and as set forth in the Declaration of Covenants, Conditions and Restrictions for the Orchards of Flat Rock.

THE ORCHARDS, LLC

A handwritten signature in black ink, appearing to read "Bruce M. Alexander", written over a horizontal line.

By: Bruce M. Alexander, Member/Manager