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DECLARATION OF COVENANTS, CONDITIONS, AND RESTRICTIONS
FOR
WATER OAK AT LAKE NORMAN

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DECLARATION OF COVENANTS, CONDITIONS, AND RESTRICTIONS
FOR
WATER OAK AT LAKE NORMAN

THIS DECLARATION OF COVENANTS, CONDITIONS, AND RESTRICTIONS is made this 7th day of August, 2002, by Arvida Mid-Atlantic Homes, Inc., a North Carolina corporation.

Article I. Creation of the Community

1.1. Purpose and Intent.

Declarant, as the owner of the real property described in Exhibit "A" (or if not the owner, with the owner's consent), is recording this Declaration to establish a general plan of development for Water Oak at Lake Norman, a planned community. This Declaration provides for the Community's overall development, administration, maintenance, expansion, and preservation. An integral part of the development plan is the creation of the Water Oak Homeowners Association, Inc., an association comprised of all Water Oak property owners, to own, operate, and/or maintain various common areas and community improvements and to administer and enforce this Declaration and the other Governing Documents.

This document does not and is not intended to create a condominium under North Carolina law.

1.2. Binding Effect.

This Declaration governs the property described in Exhibit "A," and any other property submitted to this Declaration in the future. This Declaration shall run with the title to such property and shall bind anyone having any right, title, or interest in any portion of such property, their heirs, successors, successors-in-title, and assigns.

Declarant, the Association, any aggrieved Owner, and their respective legal representatives, heirs, successors, and assigns may enforce this Declaration. Except as North Carolina may otherwise require, unless earlier terminated by a recorded termination agreement executed by 100% of the Lot Owners, this Declaration shall be effective for a minimum of 25 years from the date it is recorded. After 25 years, this Declaration may be terminated only by a recorded termination agreement executed by at least 80% of the Lot Owners and by Declarant (during the Development and Sale Period). Any termination shall be effective as of the date specified in the recorded termination agreement. Nothing in this Section shall be construed to permit termination of any easement created in this Declaration without the consent of the holder of such easement.

1.3. Governing Documents.

The Governing Documents create a general development plan for Water Oak. The following diagram identifies and summarizes the Governing Documents, each as they may be amended:

Declaration _____ (recorded)	creates obligations which are binding upon the Association and all present and future owners of property in Water Oak
Supplemental Declaration _____ (recorded)	<i>may</i> subject additional property to the Declaration and/or impose additional obligations or restrictions on such property or other property subject to the Declaration
Articles of Incorporation _____ (filed with the Secretary of State)	establish the Association as a non-profit corporation under North Carolina law
By-Laws _____ (Board initially adopts)	govern the Association's internal affairs, such as voting rights, elections, meetings, officers, etc.
Architectural Guidelines _____ (Declarant adopts)	Establish architectural standards and guidelines for improvements and modifications to Lots, including structures, landscaping, and other items on Lots
Use Restrictions _____ (initial set attached as Exhibit "B")	govern the use of property and activities within Water Oak
Board Resolutions and Rules _____ (Board adopts)	establishes rules, policies, and procedures for internal governance and Association activities; regulate operation and use of Common Area

Additional restrictions or provisions which are more restrictive than the provisions of this Declaration may be imposed by. Supplemental Declaration on any portion of Water Oak, in which case, the more restrictive provisions will be controlling. However, no Person shall record any additional covenants, conditions, or restrictions affecting any portion of Water Oak without Declarant's written consent during the Development and Sale Period. Thereafter, the Board must consent. The property owner's consent is required in all cases. Any instrument recorded without the required consent is void and of no force and effect.

If there are conflicts between North Carolina law, the Articles, the Declaration, and the By-Laws, North Carolina law, the Declaration, the Articles, and the By-Laws (in that order) shall prevail.

All Owners and occupants of Lots shall comply with the Governing Documents. The Governing Documents also apply to tenants, guests, visitors, and invitees of Owners and Lots.

If any court determines that any provision of this Declaration is invalid, or invalid as applied in a particular instance, such determination shall not affect the validity of other provisions or other applications of the provision.

Article II Concepts and Definitions

2.1. Defined Terms.

The terms used in the Governing Documents are given their natural, commonly accepted definitions unless otherwise specified. Capitalized terms are defined as follows:

"Affiliate": Any Person which (either directly or indirectly, through one, or more intermediaries) controls, is in common control with, or is controlled, by, another Person, and any Person that is a director, trustee, officer, employee, independent contractor, shareholder, agent, co-venturer, subsidiary, personal representative, or attorney of any of the foregoing.' For the purposes of this definition, the term "control" means the direct or indirect power to direct or cause the direction of an entity's management or policies, whether through the ownership of voting securities, by contract, or otherwise. For all purposes under the Governing Documents, Declarant's Affiliates shall include Saussy Burbank, Inc.

"Architectural Guidelines": The Community's architectural, design, and construction guidelines and review procedures adopted pursuant to Article IV.

"Architectural Review Committee" or **"ARC"**: The committee established to review plans and specifications for the construction or modification of improvements and to administer and enforce the architectural controls described in Article IV.

"Articles": The Articles of Incorporation of Water Oak Homeowners Association Inc., filed with North Carolina's Secretary of State, as they may be amended.

"Association": The Water Oak Homeowners Association, Inc., a North Carolina nonprofit corporation, its successors or assigns.

"Benefited Assessment": Assessments charged against a Lot or Lots for Association expenses benefiting only that particular Lot or Lot(s), as described in Section 8.4.

"Board": The Association's board of directors; the body responsible for the Association's general governance and administration, selected as provided in the By-Laws.

"Builder": Any Person who acquires Lots for the purpose of constructing homes for later sale to consumers, or who purchases land within the Community for further subdivision, development, and/or resale in the ordinary course of its business.

“By-Laws”: The By-Laws of Water Oak Homeowners Association, Inc., as they may be amended. A copy of the initial By-Laws is attached to this Declaration as Exhibit “C.”

Class “A” Member: Each Owner except, during the period of Class “B” membership, Declarant and any Affiliate of Declarant.

Class “B” Member: Collectively, and until termination of the Class “B” membership, Declarant and any Affiliate of Declarant owning a Lot.

“Class “B” Control Period”: The time period during which the Class “B” Member may appoint a majority of the Board members. The Class “B” Control Period ends when any one of the following occurs:

- (a) when 75% of the Lots planned for Water Oak are issued certificates of occupancy and are owned by Class “A” Members other than Builders;
- (b) December 31, 2015; or
- (c) when, in its discretion, the Class “B” Member so determines.

“Common Area”: All real and personal property, including easements, which the Association owns, leases, or otherwise has a right to possess or use for the common use and enjoyment of the Owners.

“Common Expenses”: The actual and estimated expenses the Association incurs, or expects to incur, for the general benefit of all Owners. Common Expenses include any reserves the Board finds necessary or appropriate.

“Common Maintenance Areas”: The Common Area, together with any other area for which the Association has or assumes maintenance or other responsibility.

“Community” or “Water Oak”: The real property described in Exhibit “A,” together with any additional property subjected to this Declaration in the future.

“Community System(s)” or “System(s)”: Any or all of a central telecommunication receiving and distribution system (e.g., cable television, high speed data/Internet/intranet services, and security monitoring), and its components, including associated infrastructure, equipment, hardware, and software, serving Water Oak.

“Community-Wide Standard”: The standard of conduct, maintenance, or other activity generally prevailing throughout the Community, or the minimum standards established pursuant to the Architectural Guidelines, Use Restrictions, and Board resolutions, whichever is the highest standard. Declarant initially shall establish such standard. The Community-Wide Standard may contain objective elements, such as specific lawn or house maintenance requirements, and subjective elements, such as matters subject to the Board’s or the ARC’s discretion. The

Community-Wide Standard may or may not be set out in writing. The Community-Wide Standard may evolve as development progresses and as Water Oak matures.

“Declarant”: Arvida/Mid-Atlantic Homes, Inc., a North Carolina corporation, or any successor or assign as developer of all or any portion of Water Oak who is designated as Declarant in a recorded instrument the immediately preceding Declarant executes. On all matters, Declarant may act through any of its Affiliates.

“Development and Sale Period”: The period during which Declarant or any Affiliate of Declarant owns real property within the Community or has an unexpired option to unilaterally annex property into the Community.

“Limited Common Area”: A portion of the Common Area designated as being for the primary benefit of one or more, but less than all, Owners.

“Lot”: A portion of the Community, whether improved or unimproved, which may be independently owned and conveyed, and upon which a dwelling is intended for development, use, and occupancy. The term shall refer to the land, if any, which is part of the Lot as well as any improvements on the Lot. The boundaries of each Lot shall be shown on a Plat, provided, in the case of a building containing multiple dwellings for independent sale (e.g., attached condominium or townhouse units), each dwelling which may be sold independently shall be a separate Lot.

“Member”: Each Lot Owner, as described in Section 6.2. There are two membership classes - Class “A” and Class “B,” as described in Section 6.3.

“Mortgage”: A mortgage, a deed of trust, a deed to secure debt, or any other form of security instrument affecting title to any Lot. The term “Mortgagee” shall refer to a beneficiary or holder of a Mortgage.

“Owner”: The title holder to any Lot, but excluding, in all cases, anyone holding an interest merely as security for the performance of an obligation (e.g., a Mortgagee). If a Lot is sold under a recorded contract of sale, and the contract specifically so provides, the purchaser (rather than the fee owner) will be considered the Owner.

“Person”: An individual, a corporation, a partnership, a trustee, or any other legal entity.

“Plat”: Any recorded land survey plat for all or any portion of Water Oak, as may be amended from time to time.

“Regular Assessment”: Annual assessments levied to fund Common Expenses for the general benefit of all Lots, as determined in accordance with Section 8.1.

“Special Assessment”: Assessments charged against all Owners in accordance with Section 8.3.

“Supplemental Declaration”: An instrument recorded against all or a portion of the Community, and which, among other things, may subject additional property to this Declaration, identify Limited Common Area and the obligations (including assessments) relating thereto, and/or impose additional restrictions and obligations on the hand described.

“Use Restrictions”: The initial use restrictions, rules, and regulations set forth in Exhibit “B,” which govern the use of and activities on the Lots and the Common Areas, as they may be changed in accordance with Article III or otherwise amended.

2.2. Interpretation of Certain References.

(a) Recording. All references in the Governing Documents to a “recorded” legal instrument, or to recordation or the recording of a legal instrument, shall refer to an instrument filed, or the filing of a legal instrument in the Office of the Clerk of the Superior Court of Iredell County, the ‘Office of the Register of Deeds of Iredell County, or such other place designated as the official location for filing documents affecting title to real estate in Iredell County in order to make them a matter of public record.

(b) Consent or Approval. All references in the Governing Documents to “consent” or “approval” shall refer to permission or approval which, unless otherwise expressly qualified in the specific provision, may be granted or withheld in the discretion of the ‘Person whose consent or approval is required.

(c) Discretion and Determinations. All references in the Governing Documents to “discretion” or to the right to “determine” any matter shall refer to the sole and absolute power or right to decide or act and, unless otherwise expressly limited in the Governing Documents, a Person entitled to exercise its discretion or make a determination may do-so without regard to the reasonableness of, and without the necessity of justifying, the decision, determination, action, or inaction.

Article III Use and Conduct

3.1. Restrictions on Use, Occupancy, and Alienation.

The restrictions set forth in this Section may be amended only in accordance with Article XVII.

(a) Residential and Related Uses. Lots shall be used primarily for residential and related purposes. An Owner residing in a Lot, or another resident of the Lot, may conduct business activities on such Lot only if the business activity is ancillary to the primary residential use of the Lot and:

- (i) is not apparent or detectable by sight, sound, or smell from outside of a permitted structure
- (ii) complies with applicable zoning requirements;

(iii) does not involve regular visitation of the Lot by clients, customers, suppliers, or other business invitees, or door-to-door solicitation within the Community; and

(iv) is consistent with the residential character of the Community and does not constitute a nuisance, or a hazardous or offensive use, or threaten the security or safety of others within the Community, as determined in the Board's discretion.

"Business" shall have its ordinary, generally accepted meaning and shall include, without limitation, any occupation, work, or activity undertaken on an ongoing basis which involves providing goods or services to Persons other than the family of the producer and for which the producer receives a fee, compensation, or other form of consideration, regardless of whether (A) such activity is engaged in full or part time, (B) such activity is intended to or does generate a profit, or (C) a license is required.

This Section shall not apply to restrict Declarant's activities, nor shall it restrict the activities of Persons Declarant approves with respect to the development, and sale of property in the Community. This Section shall not apply to Association activities related to the provision of services or to operating and maintaining the Community, including the Community's recreational and other amenities.

Leasing a residence is not a "business" within the meaning of this subsection.

(b) Leasing. For purposes of this Declaration, "leasing" is the regular, exclusive occupancy of a dwelling by any Person other than the Owner, for which the Owner receives any consideration or benefit, including a fee, service, or gratuity. The principle dwelling on the Lot may be leased only in its entirety (*e.g.*, separate rooms within the same dwelling may not be separately leased); provided, a detached "in-law suite" or "guest house" may be independently leased.

All Leases shall be in writing and shall have a term of at least seven months, except with the Board's prior written consent. All leases must require that tenants and all occupants of the leased Lot are bound by and obligated to comply with the Governing Documents; provided, the Governing Documents shall apply regardless of whether the requirement to comply is specifically set forth in the lease. The restrictions on lease terms set forth in this paragraph shall not apply to Lots Declarant or any Affiliate of Declarant owns.

Within ten days of a lease being signed, an Owner shall notify the Board or the Association's managing agent of the lease and provide any additional information the Board may reasonably require. The Owner must give the tenant copies of the Governing Documents. In addition to this sub-section (b), the Board may adopt reasonable Use Restrictions and rules regulating leasing and subleasing.

(c) Occupants Bound. Every Owner shall cause anyone occupying or visiting his or her Lot to comply with the Governing Documents and shall be responsible for all violations and

losses they cause to the Common Maintenance Areas, notwithstanding the fact that such Persons also are responsible for complying and may be sanctioned for any violation.

(d) Subdivision of a Lot. Lots may not be subdivided or their boundary lines changed except with the Board's prior written approval; provided, Declarant may, subdivide, change the boundary line of, and replat any Lot it or any of its Affiliates owns. In addition, during the Development and Sale Period, Declarant may convert Lots into Common Area.

3.2. Framework for Regulation.

As part of the general plan of development, the Governing Documents establish a framework of covenants, easements, and restrictions which govern the Community. This includes the initial Use Restrictions set forth in Exhibit "B." Within that framework, the Board and the Members must be able to respond to unforeseen problems and changes affecting the Community. This Article establishes procedures for modifying and expanding the Use Restrictions to respond to such changes.

The procedures described in this Article are not intended to apply to reasonable rules and regulations relating to use and operation of the Common Area, which the Board may adopt by resolution, or other administrative rules, unless the Board chooses, in its discretion, to submit to such procedures.

3.3. Owners' Acknowledgment and Notice to Purchasers.

Each Owner, by accepting a deed, acknowledges and agrees that the use, enjoyment, and marketability of his or her Lot is limited and affected by the Use Restrictions and Board rules, which may change from time to time. All Lot purchasers are on notice that the Association may have adopted changes to the Use Restrictions and that such changes need not be set forth in a recorded document. Copies of the current Use Restrictions and Board rules may be obtained from the Association.

3.4. Rule Making Authority.

(a) Subject to the terms of this Article and the Board's duty to exercise business judgment and reasonableness on behalf of the Association and the Members, the Board may change (*i.e.*, modify, cancel, limit, create exceptions to, or add to) the Use Restrictions. The Board shall send the Members notice of any proposed change at least five business days before the Board meeting to consider the change. The Members shall have a reasonable opportunity to be heard at such Board meeting.

The proposed change shall be approved unless disapproved at a meeting by at least 67% of Class "A" votes, and by the Class "B" Member, if any. The Board is not obligated to call a meeting of the Members to consider disapproval unless it receives a petition which meets the By-Law's requirements for special meetings. If the Board receives such a petition before the change's effective date, the change shall not become effective until after a meeting is held, and then subject to the outcome of the meeting.

(b) Alternatively, Members representing at least 67% of the Class "A" votes, at an Association meeting duly called for such purpose, may vote, to change the Use Restrictions then in effect. Any such change shall require approval of the Class "B" Member, if any.

(c) Before any Use Restriction change becomes effective, the Board shall send a copy of the new or changed Use Restriction to each Owner. The change does not become effective until 30 days following distribution to the Owners. The Association shall provide to any requesting Member or Mortgagee, without cost, a copy of the Use Restrictions then in effect.

(d) No action taken under this Article shall have the effect of modifying, repealing, or expanding the Architectural Guidelines or any provision of this Declaration other than the initial Use Restrictions. In the event of a conflict between the Architectural Guidelines and the Use Restrictions, the Architectural Guidelines shall control. In the event of a conflict between the Use Restrictions and any provision within this Declaration (exclusive of the Use Restrictions), the Declaration provision shall control.

3.5. Protection of Owners and Others.

Except as may be set forth in this Declaration (either initially or by amendment) or in the initial Use Restrictions set forth in Exhibit "B," the Association's actions with respect to Use Restrictions and rules must comply with the following:

(a) Similar Treatment. Similarly situated Owners must be treated similarly. Use Restrictions and rules may vary by Service Area (as defined in Section 6.4).

(b) Displays. Owners' rights to display religious and holiday signs, symbols, and decorations on their Lots of the kinds normally displayed in single-family residential neighborhoods shall not be abridged, except that the Association may adopt time, place, and manner restrictions with respect to such displays.

(c) Household Composition. The Association shall not interfere with any Owner's freedom to determine the composition of his/her household, except that it may impose and enforce reasonable occupancy limits.

(d) Activities Within Dwellings. The Association shall not interfere with activities carried on within a dwelling, except it may prohibit activities not normally associated with residential property, and it may restrict or prohibit activities that create monetary costs for the Association or other Owners, that create a danger to anyone's health or safety, that generate excessive noise or traffic, that create unsightly conditions visible outside the dwelling, or that are an unreasonable source of annoyance.

(e) Alienation. The Association shall not prohibit leasing or transfer of any Lot, or require the Association's or the Board's consent prior to leasing or transferring a Lot. The Association may require that Owners use Association-approved lease forms (or include specific lease terms) and may impose a reasonable review or administrative fee on the lease or transfer of any Lot. In addition, among other things, Section 3.1(b) imposes a minimum lease term.

(f) Abriding Existing Rights. The Association may not require an Owner to dispose of personal property that was in or on a Lot prior to the adoption of a rule in compliance with previous rules. This exemption shall apply only during the period of such Owner's ownership of the Lot and shall not apply to subsequent Owners who take title to the Lot after adoption of the rule.

(g) Reasonable Rights to Develop. The Association may not impede Declarant's right to develop Water Oak.

The limitations in subsections (a) through (f) of this Section shall not apply to amendments to this Declaration adopted in accordance with Article XVII.

Article IV Architecture and Landscaping

4.1. General

Except for work done by or on behalf of Declarant, no structure or thing shall be placed, erected, or installed upon any Lot, and no improvements or other work (including staking, clearing, excavation, grading and other site work, exterior alterations, or planting or removal of landscaping) shall take place within Water Oak, except in compliance with this Article and the Architectural Guidelines.

Any Owner may remodel, paint, or redecorate the interior of any structure on his or her Lot without approval. However, modifications to the interior of screened porches, patios, and any other portions of a Lot visible from outside a structure are subject to approval.

Each dwelling shall be designed by and built in accordance with the plans and specifications of a licensed architect acceptable to Declarant, unless Declarant, in its discretion, or its designee, otherwise approves.

This Article does not apply to Declarant's activities, or to the Association's activities during the Class "B" Control Period.

4.2. Architectural Review

(a) By Declarant. Declarant shall have exclusive authority to administer and enforce architectural controls and to review and act upon all applications for architectural and other improvements within the Community. Declarant's rights under this Article IV shall continue until all Lots in the Community have been improved with a dwelling for which a certificate of occupancy has been issued, unless Declarant earlier terminates its rights in a recorded instrument. Declarant may designate one or more Persons to act on its behalf in reviewing any application. In reviewing and acting upon any request for approval, Declarant or its designee acts solely in Declarant's interest and owes no duty to any other Person.

Declarant may from time to time delegate or assign all or any portion of its rights under this Article to any other Person or committee, including the Architectural Review Committee. Any such delegation shall be in writing, shall specify the delegated responsibilities, and shall be

subject to (i) Declarant's right to revoke such delegation at any time and reassume its prior jurisdiction, and (ii) Declarant's right to veto any decision which it determines, in its discretion, to be inappropriate or inadvisable for any reason. So long as Declarant has any rights under this Article, the jurisdiction of other entities shall be limited to such matters as Declarant specifically delegates.

(b) Architectural Review Committee. Upon Declarant's delegation or upon expiration or termination of Declarant's rights under this Article, the Associations acting through the ARC, shall assume jurisdiction over architectural matters. When appointed, the ARC shall consist of at least three, but not more than five, persons. Members of the ARC need not be Members of the Association or representatives of Members, and may, but need not, include architects, engineers, or similar professionals, who may be compensated in such manner and amount, if any, as the Board may establish. The ARC members shall serve and may be removed and replaced in the Board's discretion.

Until all Lots in the Community have been improved with a dwelling for which a certificate of occupancy has been issued, the ARC shall notify Declarant of any action to be taken under this Article. During such time, Declarant shall have the right, in its discretion, to veto any action the ARC takes; provided, Declarant's right to veto must be exercised within 10 business days after it receives notice of the ARC's action. The party submitting the plans for approval shall not be notified of the ARC's approval or disapproval until after Declarant's right to veto has been exercised or has expired.

Unless and until such time as Declarant delegates any of its reserved rights to the ARC or Declarant's rights under this Article terminate, the Association shall have no jurisdiction over architectural matters.

Declarant and the Association may employ architects, engineers, or other Persons to perform the review required under this article.

(c) Reviewer. For purposes of this Article, the "Reviewer" is the entity having jurisdiction in a particular case, whether Declarant or the ARC.

(d) Fees: Assistance. The Reviewer may establish and charge reasonable fees for its review of applications and may require that such fees be paid in advance. Such fees may include the reasonable costs incurred in having any application reviewed by architects, engineers, or other professionals. The Board may include the compensation of such Persons in the Association's annual operating budget.

4.3. Guidelines and Procedures.

(a) Architectural Guidelines. Declarant may prepare the initial Architectural Guidelines. The Architectural Guidelines are intended to provide guidance to Owners and Builders regarding matters of particular concern to the Reviewer. The Architectural Guidelines are not the exclusive basis for the Reviewer's decisions, and compliance with the Architectural Guidelines does not guarantee an application's approval.

During the Development and Sale Period, Declarant shall have sole and full authority to amend the Architectural Guidelines. Declarant's right to amend shall continue even if its reviewing authority is delegated to the ARC, unless Declarant also delegates the power to amend to the ARC. Upon termination or delegation of Declarant's right to amend, the Board may amend the Architectural Guidelines.

Amendments to the Architectural Guidelines shall be prospective only. They shall not require modifications to or removal of structures previously approved once the approved construction or modification has begun. However, any new work on such structures must comply with the Architectural Guidelines as amended. Subject to the Community-Wide Standard, there is no limit to the scope of amendments to the Architectural Guidelines, and such amendments may remove requirements previously imposed or otherwise make the Architectural Guidelines less restrictive.

The Reviewer shall make the Architectural Guidelines available to Owners and Builders who seek to engage in development or construction within Water Oak. In Declarant's discretion, the Architectural Guidelines may be recorded, in which event the recorded version, as it may be amended from time to time, shall control in the event of any dispute as to which version of the Architectural Guidelines was in effect at any particular time.

(b) Procedures. Unless the Architectural Guidelines provide otherwise, no construction activities or other activities described in Section 4.1 may begin until a request is submitted to and approved by the Reviewer. The request must be in writing and be accompanied by plans and specifications and other information the Reviewer or the Architectural Guidelines require. Plans and specifications shall show, as applicable, site layout, structural design, exterior elevations, exterior materials and colors, landscaping, drainage, exterior lighting, irrigation, and other features of proposed construction.

In reviewing each submission, the Reviewer may consider any factors it deems relevant, including, without limitation, harmony of the proposed exterior design with surrounding structures and environment. Decisions may be based on purely aesthetic considerations. Each Owner acknowledges that aesthetic determinations are purely subjective and that opinions may vary as to the desirability and/or attractiveness of particular improvements. The Reviewer shall have the sole discretion to make final, conclusive, and binding determinations on matters of aesthetic judgment and any such determination is not subject to the provisions of Article XII nor shall it be subject to judicial review so long as it is made in good faith and in accordance with the required procedures.

The Reviewer shall make a determination on each application after receipt of a completed application and other information it requires. The Reviewer may permit or require that an application be submitted or considered in stages, in which case, a final decision shall not be required until after the final, required submission stage. The Reviewer may (i) approve the application, with or without conditions; (ii) approve a portion of the application and disapprove other portions; or (iii) disapprove the application.

Reviewer approval is not a substitute for any approvals or reviews required by Iredell County or any other municipality or governmental agency or entity having jurisdiction over architectural or construction matters.

The Reviewer shall notify the applicant in writing of the final determination on any application within 30 days after its receipt of a completed application and all required information. If the Reviewer fails to respond in a timely manner, approval shall be deemed given, subject to Declarant's right to veto pursuant to Section 4.2(a). However, no approval, whether expressly granted or deemed granted, shall be inconsistent with the Architectural Guidelines unless a written variance has been granted pursuant to Section 4.5.

Notice shall be deemed given at the time the envelope containing the response is deposited in U.S. mail. Personal or electronic delivery of such written notice also shall be sufficient and shall be deemed given at the time of confirmed delivery to the applicant.

As part of any approval, the Reviewer may require that construction in accordance with approved plans commence within a specified time period. If construction does not commence within the required period, the approval shall expire and the Owner must reapply for approval before commencing any activities. Once commenced, construction must be diligently pursued to completion. All construction work shall be completed within one year of commencement unless otherwise specified in the notice of approval or the Architectural Guidelines, or unless the Reviewer, in its discretion, grants an extension in writing. If approved work is not completed within the required time, it shall be in violation of this Article and shall be subject to enforcement action by the Association or Declarant.

Declarant or the Board, with Declarant's consent, by resolution, may exempt certain activities from the application and approval requirements of this Article, provided such activities are undertaken in strict compliance with the requirements of such resolution.

4.4. No Waiver of Future Approvals.

Each Owner acknowledges that the people reviewing applications under this Article will change from time to time and that opinions on aesthetic matters, as well as interpretation and application of the Architectural Guidelines, may vary accordingly. In addition, each Owner acknowledges that it may not always be possible to identify objectionable features until work is completed. In such case, the Association may require that the objectionable feature be changed, or, if the Board deems such action to be unreasonable, it may permit the objectionable feature to remain. However, in either case, the Reviewer may refuse to approve similar proposals in the future. Approval of applications or plans, or the decision not to pursue enforcement action, shall not constitute a waiver of the right to withhold approval of similar applications, plans, or other matters subsequently or additionally submitted for approval, or to pursue enforcement of similar violations in the future.

4.5. Variances.

The Reviewer may authorize variances from compliance with the Architectural Guidelines and any procedures when circumstances such as topography, natural obstructions,

hardship, or aesthetic or environmental considerations require, but only in accordance with duly adopted rules and regulations. No variance shall (a) be effective unless in writing; (b) be contrary to this Declaration; or (c) prevent the Reviewer from denying a variance in other circumstances. A variance requires Declarant's written consent during the Development and Sale Period and, thereafter, requires the Board's written consent.

4.6. Limitation of Liability.

This Article establishes standards and procedures as a mechanism for maintaining and enhancing the overall aesthetics of Water Oak. The standards and procedures do not create any duty to any Person. Review and approval of any application pursuant to this Article may be based on purely aesthetic considerations. The Reviewer is not responsible for the structural integrity or soundness of approved construction or modifications, for compliance with building codes and other governmental requirements, or for ensuring that every dwelling is of comparable quality, value, or size, of similar design, or aesthetically pleasing or otherwise acceptable to other Owners.

Declarant, Declarant's Affiliates, the Association, its officers, the Board, the ARC, the Association's management agent, any committee or any member of any of the foregoing shall not be held liable for the approval of, disapproval of, or failure to approve or disapprove any plans; soil conditions, drainage, or other general site work; any defects in plans revised or approved hereunder; any loss or damage arising out of the action, inaction, integrity, financial condition, or quality of work of any contractor or its subcontractors, employees, or agents, whether or not Declarant has approved or featured such contractor as a Builder in the Community; or any injury, damages, or loss arising out of the manner or quality or other circumstances of approved construction on or modifications to any Lot. In all matters, the Association shall defend and indemnify the Board, the ARC, and the members of each, committee members, the Association's officers, and the Association's management agent as provided in Section 7.6.

4.7. Enforcement.

Any construction, alteration, or other work done in violation of this Article or the Architectural Guidelines is subject to enforcement action. Upon written request from the Association or Declarant, an Owner shall, at his or her own cost and expense, and within a reasonable time frame identified in the request (not to exceed 90 days), cure the violation or restore the Lot to substantially the same condition as existed before the violation occurred. Should an Owner fail to cure the problem or otherwise restore the property as required, the Association, Declarant, or their designees shall have the right to enter the property, remove the violation, and restore the property. All costs, together with interest at the rate the Board establishes (not to exceed the maximum rate then allowed by law), may be assessed against the benefited Lot and collected as a Benefited Assessment.

Any approvals granted under this Article are conditioned upon completion of all elements of the approved work, unless approval to modify any application has been obtained. In the event that any Person fails to commence and diligently pursue to completion all approved work by the deadline imposed, Declarant or the Association may, after notifying the Owner and allowing an

opportunity to be heard in accordance with the By-Laws, enter upon the Lot and remove or complete any incomplete work and assess all costs incurred against the Lot and its Owner as a Benefited Assessment.

Any act of any contractor, subcontractor, agent, employee, or invitee of an Owner shall be deemed as an act done by or on behalf of such Owner. Any contractor, subcontractor, agent, employee, or other invitee of an Owner who fails to comply with the terms and provisions of this Article and the Architectural Guidelines may be excluded from the Community, subject to the notice and hearing procedures contained in the By-Laws. Declarant, Declarant's Affiliates, the Association, and the Association's management agent, and their respective officers and directors, shall not be held liable to any Person for exercising the rights granted by this paragraph.

The Association shall be primarily responsible for enforcing this Article. If, however, in Declarant's discretion, the Association fails to take appropriate enforcement action within a reasonable time period, Declarant, during the Development and Sale Period, may, but shall not be obligated to, exercise the enforcement rights set forth above. In such event, Declarant may assess and collect Benefited Assessments against the violating Owner and assert the Association's lien rights pursuant to Article VIII. The Association hereby assigns to Declarant such rights and authority, including the right to all funds collected, and no further assignments shall be required.

In addition to the foregoing, the Association and Declarant shall have the authority and standing to pursue all legal and equitable remedies available to enforce the provisions of this Article and the Reviewer's decisions. If the Association or Declarant prevails, they shall be entitled to recover all costs including, without limitation, attorneys' fees and court costs, reasonably incurred in such action. The alternative dispute resolution provisions set out in Article XII shall not apply to actions by Declarant or the Association to enforce the provisions of this Article or the Reviewer's decisions.

Article V Maintenance and Repair

5.1. Maintenance of Lots.

Unless a Supplemental Declaration assigns such maintenance responsibility to the Association, each Owner shall maintain his or her Lot, including all structures, landscaping, and other improvements comprising the Lot, in a manner consistent with the Governing Documents and the Community-Wide Standard. A Lot Owner's maintenance responsibility shall include such portions of any storm drain easements, as shown on a Plat, which lie within the Lot boundaries.

Each Owner shall maintain the landscaping located in the public right-of-way adjacent to his or her Lot unless the Association or the Town of Mooresville assumes all or part of such maintenance responsibility. Each Owner also is responsible for keeping clean and free of debris the curb and gutter and other exposed drainage structures immediately adjacent to his or her Lot and lying between the Lot's side boundaries, unless the Association or the Town of Mooresville assumes such maintenance responsibility.

5.2. Maintenance of Alleys.

The Association shall maintain and keep all alleys providing access to Lots in good repair in accordance with the Community-Wide Standard. All costs associated with the maintenance of an alley shall be allocated among and assessed against the Lots served by such alley as a Benefited Assessment in accordance with Section 8.4. An alley serves a Lot if the alley provides direct access to the Lot

5.3. Responsibility for Repair and Replacement.

Unless otherwise, specifically provided in the Governing Documents or in other instruments creating and assigning maintenance responsibility, responsibility for maintenance includes responsibility for repair and replacement as necessary to maintain the property to a level consistent with the Community-Wide Standard.

Each Owner shall carry property insurance for the full replacement cost of all insurable improvements on his or her Lot, less a reasonable deductible, unless the Association carries such insurance (which it may, but is not obligated to do). If the Association assumes responsibility for insuring a Lot, the insurance premiums shall be levied as a Benefited Assessment against the benefited Lot and the Owner.

In the event of damage to or destruction of a structure on a Lot, the Owner shall promptly repair or reconstruct the structure in a manner consistent with the original construction or other plans and specifications approved in accordance with Article IV; in any event, such repair or reconstruction shall be completed within 180 days of the Owner's receipt of insurance proceeds for such purpose. Alternatively, the Owner shall clear the Lot, landscape it in a manner consistent with a landscape plan approved in accordance with Article IV, and maintain it in a neat and attractive condition consistent with the Community-Wide Standard. The Owner shall pay any costs insurance proceeds do not cover.

Article VI The Association and its Members

6.1. Function of Association.

The Association is the entity responsible for management, maintenance, operation, and control of the Common Maintenance Areas. The Association also has primary responsibility for administering and enforcing the Governing Documents. The Association shall perform its functions in accordance with the Governing Documents and North Carolina law. The Board shall be responsible for management of the Association and may contract with a community association manager or management company for such purposes. The Board is appointed or elected as provided in the By-Laws.

6.2. Membership.

Every Owner is a Member of the Association; provided, there is only one membership per Lot. If a Lot is owned by more than one Person, each co-Owner shares the privileges of the membership, subject to reasonable Board regulation and the voting restrictions described below

and in the By-Laws. Co-Owners are jointly and severally obligated to perform the responsibilities of a Member. The membership rights of an Owner which is not an individual (e.g., a corporation) may be exercised by any officer, director, partner, or trustee, or by an individual the Owner designates from time to time in a written instrument provided to the Association's Secretary.

The Association shall have two classes of membership, Class "A" and Class "B." The Class "B" membership terminates upon the earlier of: (i) the transfer of title to all property planned for development and sale as a part of Water Oak to Persons other than Builders or developers intending to develop such property as a part of Water Oak; or (ii) when, in its discretion, Declarant declares in a recorded instrument.

6.3. Voting.

(a) Class "A". Class "A" Members have one equal vote for each Lot they own, except that there is only one vote per Lot.

In any situation where there is more than one Owner of a Lot, the vote for such Lot shall be exercised as the co-Owners determine among themselves and advise the Secretary of the Association in writing prior to the vote being taken. Absent such advice, the Lot's vote shall be suspended if more than one Person seeks to exercise it.

(b) Class "B". The Class "B" Member shall not vote, but may appoint a majority of the Board members during the Class "B" Control Period, as specified in the By-Laws, and may exercise the additional rights specified throughout the Governing Documents. Unless Declarant delegates such authority, Declarant shall act as, and on behalf of, the Class "B" Member on all matters. Upon termination of the Class "B" membership, Declarant and Declarant's Affiliates shall be Class "A" Members entitled to one Class "A" vote for each Lot they own.

No vote shall be exercised for any property which is exempt from assessment under Section 8.8.

6.4. Service Areas.

During the Development and Sale Period, Declarant, acting in its sole and absolute discretion, retains the right, but not the obligation, to establish separate "Service Areas" within the Community, and to designate Common Area within the Service Area as Limited Common Areas reserved for the exclusive use of the Owners of Lots within the Service Area. By Supplemental Declaration, the Lots within a Service Area may be made subject to additional covenants, conditions, and restrictions, and additional assessments for services provided to such Lots.

A Service Area may request that the Association provide a higher level of service than that which the Association generally provides to other portions of the Community, or may request that the Association provide special services for the benefit of Lots in such Service Area. Upon the affirmative vote, written consent, or a combination thereof, of Owners of a majority of the Lots within the Service Area, the Association shall provide the

requested services. The cost of such services, which may include a reasonable administrative charge in such amount as the Board deems appropriate (provided, any such administrative charge shall apply at a uniform rate per Lot to all Service Areas receiving the same service), shall be assessed against just the Lots within such Service Area as a "Service Area Assessment."

Article VII Association Powers and Responsibilities

7.1. Acceptance and Control of Association Property.

(a) The Association may acquire, hold, mortgage or otherwise encumber, lease (as landlord or tenant), operate, and dispose of tangible and intangible personal property and real property, subject to the provisions of Section 13.5. The Association may enter into leases, licenses, or operating agreements, for payment or no payment, as the Board deems appropriate, permitting use of portions of the Common Area by others. However, the Association may not convey or subject to a security interest any portion of the Common Area unless Members representing at least 80% of the Class "A" vote agree in writing.

(b) Declarant or its designees may transfer to the Association, and the Association shall accept, personal property and/or fee title or other, property interests in any improved or unimproved real property included within Water Oak. Upon Declarant's written request, the Association shall transfer back to Declarant any unimproved real property originally conveyed to the Association for no payment, to the extent conveyed by Declarant in error or needed by Declarant to make minor adjustments in property lines.

(c) The Association is responsible for management, operation, and control of the Common Area, subject to any covenants, easements, or restrictions set forth in the deed or other instrument transferring the property to the Association. The Board may adopt such reasonable rules regulating use of the Common Area as it deems appropriate. The Association may enter into a community association or property management agreement with any Person, including Declarant or any Affiliate of Declarant.

7.2. Maintenance of Common Maintenance Areas.

The Association shall maintain the Common Maintenance Areas (regardless of whether conveyed or dedicated to the Association) in accordance with the Community-Wide Standard. The Common Maintenance Areas shall include, but are not limited to:

(a) the Common Area, including landscaping, structures, private rights-of-way, stormwater drainage system components, and other improvements within the Common Area;

(b) landscaping within public rights-of-way within or abutting Water Oak, except to the extent such areas are maintained by Owners or the Town of Mooresville as provided in Section 5.1; and

(c) such portions of any additional property as may be dictated by Declarant, this Declaration, any Supplemental Declaration, any Plat, or any contract, covenant, or agreement for maintenance entered into by, or for the benefit of, the Association.

The Association may maintain other property which it does not own, including property dedicated to the public, if the Board determines that such maintenance is necessary or desirable to maintain the Community-Wide Standard and the property owner consents. In addition, the Association may, but is not obligated to, maintain any ponds, streams, and/or wetlands which serve as part of the Community's stormwater drainage system (including associated improvements and equipment) and which are located within the boundaries of a Lot.

The Association shall not be liable for any damage or injury occurring on or arising out of the condition of property which it does not own except to the extent that it has been negligent in performing its maintenance responsibilities.

The Association shall maintain the facilities and equipment within the Common Maintenance Areas in continuous operation, except for any periods necessary, as determined by the Board, to perform required maintenance or repairs, unless Members representing at least 75% of the Class "A" votes in the Association agree in writing to discontinue such operation (which may include closing and/or demolishing such facilities or equipment). Notwithstanding the above, the Common Maintenance Areas may not be reduced, nor shall operation of its facilities and equipment be discontinued, without Declarant's prior written approval during the Development and Sale Period.

The costs associated with maintenance, repair, and replacement of the Common Maintenance Areas shall be a Common Expense. However, the Association may seek reimbursement from the owner(s) of, or other Persons responsible for, certain portions of the Common Maintenance Areas pursuant to this Declaration, a Supplemental Declaration, or other recorded covenants or agreements. The cost of maintenance, repair, and replacement of Limited Common Areas may be assessed against all Lots or, if so indicated in this Declaration (e.g., Section 5.2) or a Supplemental Declaration, against just those Lots served by the Limited Common Area.

Unless Declarant expressly agrees in writing with the Association to pay the costs of maintaining any portion of the Common Maintenance Areas, Declarant shall have no such obligation, regardless of any inferences which may be drawn from promotional or other materials.

7.3. Insurance.

(a) Required Coverages. The Association, acting through its Board or its duly authorized agent, shall obtain and continue in effect the following insurance, to the extent reasonably available: (i) blanket property insurance in amounts required under the North Carolina Planned Community Act, covering all insurable improvements within the Common Maintenance Areas to the extent that the Association has assumed responsibility in the event of a casualty, regardless of ownership; (ii) commercial general liability insurance on the Common Maintenance Areas; and (iii) directors and officers liability coverage. In addition, the

Association, acting through the Board or its duly authorized agent, may obtain and continue in effect commercial crime insurance, including fidelity insurance, covering all Persons responsible for handling Association funds and such additional insurance as the Board, in its business judgment, determines advisable and is reasonably available.

In addition, the Association shall, if so specified in a Supplemental Declaration applicable to any Service Area (as described in Section 6.4), obtain and maintain property insurance on the insurable improvements within such Service Area. Any such policies shall provide for a certificate of insurance to be furnished upon request to the Owner of each Lot insured.

Unless otherwise provided in a Supplemental Declaration, the premium for Common Maintenance Area insurance shall be a Common Expense.

(b) Policy Requirements. The Association may, in the Board's discretion, arrange for periodic reviews of the sufficiency of its insurance coverage by one or more qualified Persons, at least one of whom is familiar with insurable replacement costs in the Iredell County area. All Association policies shall provide for a certificate of insurance to be furnished to the Association and, upon request, to each Member insured.

The policies may contain a reasonable deductible which shall not be subtracted from the face amount of the policy in determining whether the policy limits satisfy the requirements of Section 7.3(a). In the event of an insured loss, the deductible shall be treated as a Common Expense in the same manner as the premiums for the applicable insurance coverage. However, if the Board reasonably determines, after notice and an opportunity to be heard in accordance with the By-Laws, that the loss is the result of the negligence or willful misconduct of one or more Owners, their guests, invitees, or tenants, then the Board may assess up to the full amount of the loss against such Owner(s) and their Lots as a Benefited Assessment.

(c) Restoring Damaged Improvements. In the event of damage to or destruction of Common Area or other property which the Association is obligated to insure, the Board or its duly authorized agent shall file and adjust all insurance claims and obtain reliable and detailed estimates of the cost of repairing or restoring the property to substantially the condition in which it existed prior to the damage, allowing for changes or improvements necessitated by changes in applicable building codes.

Damaged improvements on the Common Area shall be repaired or reconstructed unless Members representing at least 80% of the total Class "A" votes in the Association (or, if a Limited Common Area, 100% of the Owners to whom the Limited Common Area is assigned) and the Class "B" Member, if any, decide within 60 days after the loss not to repair or reconstruct. If either the insurance proceeds or estimates of the loss, or both, are not available to the Association within such 60-day period, then the period may be extended until such funds or information are available. No Mortgagees shall have the right to participate in the determination of whether the damage or destruction to the Common Area shall be repaired or reconstructed.

If a decision is made not to restore the damaged improvements, and no alternative improvements are authorized, the affected property shall be cleared of all debris and ruins, and thereafter shall be landscaped and maintained by the Association in a neat and attractive condition consistent with the Community-Wide Standard.

The Association shall retain in a reserve fund for capital items any insurance proceeds remaining after paying the costs of repair or reconstruction, or after an agreed-upon settlement, for the benefit of the Members. This is a covenant for the benefit of the Mortgagees and may be enforced by the Mortgagee of any affected Lot.

If insurance proceeds and reserves are insufficient to cover the costs of repair or reconstruction, the cost of repair or replacement shall be a Common Expense, pursuant to N.C.G.S. 47F-3-113(g), and the Association may, without a vote of the Members, levy Special Assessments to cover the shortfall.

7.4. Compliance and Enforcement.

(a) The Board may impose sanctions for Governing Document violations, which sanctions include those listed below and any others described elsewhere in the Governing Documents. The Board may establish a range of penalties for different violations, with violations of the Declaration, unsafe conduct, and harassment or intentionally malicious conduct treated more severely than other violations. The following sanctions require prior notice and an opportunity for a hearing in accordance with the By-Laws (provided only a single notice and hearing is required for continuing violations):

(i) imposing reasonable monetary fines, not to exceed \$150.00 per violation (or per day in the case of a continuing violation), which shall constitute a lien upon the violator's Lot (fines may be imposed within a graduated range). There is no limit on the aggregate amount of any fine for a continuing violation;

(ii) suspending an Owner's right to vote;

(iii) suspending any Person's right to use Common Area amenities; provided, nothing shall authorize the Board to impair an Owner or occupant's access to his or her Lot;

(iv) suspending any services provided by the Association;

(v) exercising self-help or taking action to abate any violation of the Governing Documents occurring on a Lot in a non-emergency situation (including removing personal property that violates the Governing Documents); and

(vi) levying Benefited Assessments to cover costs incurred by the Association to bring a Lot into compliance with the Governing Documents.

In addition, the Board may take the following enforcement actions to ensure compliance with the Governing Documents without the necessity of compliance with the procedures set forth in the By-Laws:

(i) exercising self-help or taking action to abate a violation on a Lot in an emergency situation (including towing vehicles that are in violation of parking rules and regulations);

(ii) exercising self-help or taking action to abate a violation on the Common Area under any circumstances; or

(iii) bringing suit at law for monetary damages or in equity to stop or prevent any violation, or both.

In addition to any other enforcement rights, if an Owner fails properly to perform his or her maintenance responsibility, the Association may record a notice of violation or perform the required maintenance and assess its costs against the Lot and the Owner as a Benefited Assessment. Except in an emergency situation, the Association shall provide the Owner reasonable notice and an opportunity to cure the problem prior to taking such enforcement action.

Moreover, if an Owner is legally responsible for damage inflicted on any Common Area, the Association may direct such Owner to repair such damage or the Association may make the repairs and recover damages from the responsible Owner. If the damages are less than or equal to the jurisdictional amount established for small claims under N.C.G.S. 7A-210, the Owner may request a hearing before the Board or an adjudicatory panel the Board appoints pursuant to N.C.G.S. 47F-3-107.

The above sanctions shall not apply to Declarant or any Affiliate of Declarant or to any Lot owned by Declarant or any of its Affiliates. All sanctions and remedies set forth in the Governing Documents are in addition to any remedies available at law or in equity. In any action to enforce the Governing Documents, the prevailing party may recover all of its costs incurred in the action, including, without limitation, court costs and reasonable attorneys' fees.

(b) The decision to pursue enforcement action in any particular case shall be left to the Board's discretion, except that the Board shall not be arbitrary or capricious in taking enforcement action. Without limiting the generality of the foregoing sentence, the Board may determine that, under the circumstances of a particular case:

(i) the Association's position is not strong enough to justify taking any or further action;

(ii) the covenant, restriction, or rule being enforced is, or is likely to be construed as, inconsistent with applicable law;

(iii) although a technical violation may exist or may have occurred, it is not of such a material nature as to be objectionable to a reasonable person or to justify expending the Association's resources; or

(iv) that it is not in the Association's best interests, based upon hardship, expense, or other reasonable criteria, to pursue enforcement action.

A decision not to enforce a particular provision shall not prevent the Association from enforcing the same provision at a later time or prevent the enforcement of any other covenant, restriction, or rule.

By contract or other agreement, the Association may enforce applicable city and county ordinances. In addition, Iredell County and the Town of Mooresville may enforce their ordinances within Water Oak.

7.5. Implied Rights: Board Authority.

The Association may exercise any right or privilege given to it expressly or by reasonable implication by the Governing Documents, and may take action reasonably necessary to effectuate any such right or privilege. Except as otherwise specifically provided in the Governing Documents or by law, the Board may exercise all of the Association's rights and powers without a vote of the membership.

The Board may institute, defend, settle, or intervene on the Association's behalf in mediation, binding or non-binding arbitration, litigation, or administrative proceedings in matters pertaining to the Common Maintenance Areas, enforcement of the Governing Documents, or any other civil claim or action. However, the Board has no legal duty to institute arbitration, litigation, or other administrative proceedings on behalf of or in the name of the Association or the Members. In exercising the Association's rights and powers, making decisions on the Association's behalf, including, without limitation, deciding whether to file a lawsuit under any circumstances, and conducting the Association's affairs, Board members and the Association's officers are subject to, and their actions shall be judged in accordance with, the standards set forth in the By-Laws.

7.6. Indemnification of Officers, Directors, and Others.

The officers, directors, and committee members, acting in such capacity, and the Association's management agent, shall not be liable for any mistake of judgment, negligent or otherwise, except for their own individual willful misfeasance, malfeasance, misconduct, or bad faith. The officers, directors, and committee members, and the Association's management agent, shall have no personal liability for any contract or other commitment made or action taken in good faith on the Association's behalf.

Subject to North Carolina law, the Association shall indemnify every officer, director, and committee member, and the Association's management agent, against all damages and expenses, including counsel fees, reasonably incurred in connection with any action, suit, or other proceeding (including settlement of any suit or proceeding, if approved by the then Board) to which he or she may be a party by reason of being or having been an officer, director, committee member, or management agent, except that such obligation to indemnify shall be limited to those actions for which liability is limited under this Section.

This right to indemnification shall not be exclusive of any other rights which any present or former officer, director, committee member, or management agent may have. The Association shall, as a Common Expense, maintain adequate general liability and officers' and directors' liability insurance to fund this obligation, if such insurance is reasonably available.

7.7. Provision of Services.

The Association may provide, or provide for, services and facilities for all or any of the Members and their Lots, and may enter into contracts or agreements with other entities, including Declarant or its Affiliates, to provide such services and facilities. The Board may charge use or service fees for any such services and facilities, or may include the costs in the Association's budget as a Common Expense and assess it as part of the Regular Assessment, if provided to all Lots. By way of example, such services and facilities might include landscape maintenance, pest control service, cable television service, telephone, internet access, security monitoring, caretaker, transportation, fire protection, utilities, trash collection and recycling, and similar services and facilities.

Nothing in this Section shall be construed as a representation by Declarant or the Association as to what, if any, services shall be provided. In addition, subject to the contract terms, the Board may modify or cancel existing contracts for services in its discretion, unless the services are otherwise required by the Governing Documents. Non-use of services provided to all Owners or Lots as a Common Expense shall not exempt any Owner from the obligation to pay assessments for such services.

7.8. Bulk Rate Service Agreements.

The Association may enter into contracts, including bulk rate service agreements, with providers of Community Systems components and other utilities and with other Persons for the maintenance, management, administration, upgrading, modification, and operation of the Systems and utilities. The Association's expenses in connection with any such bulk rate contracts shall be a Common Expense to be included in the Regular Assessment; provided, if particular or additional services or benefits are provided to particular Lots, the benefited Owner(s) shall pay the service provider directly for such services, or the Association may assess the costs as a Benefited Assessment.

The terms of any Association contract for Community Systems or other utilities may obligate individual Owners or occupants to execute subscription agreements or other contracts directly with the Persons providing components or services prior to gaining access to the System or utility, or in the alternative, the Association may execute a subscription agreement or contract on behalf of all Owners. Such subscription agreements or other contracts may contain terms and conditions relating to use and access to the Community System or utility which, if violated by the Owner or occupant of a Lot, may result in services to such Owner or occupant's Lot being terminated by the System or utility provider or by the Association. The termination of service for such a violation shall not relieve the Owner of the continuing obligation to pay that portion of assessments or other Association charges pertaining to the Community Systems or common utilities.

The Association shall have no obligation to utilize any particular provider or providers; provided, except for cause (as defined under a written agreement with the provider), the Association may not, without Declarant's consent, terminate or refuse to renew any contract entered into during the Class "B" Control Period.

7.9. Facilities and Services Open to the Public.

Portions of the Common Area, including facilities, may be open for public use and enjoyment. Such facilities and areas may include, for example: greenbelts, trails and paths, parks, areas conducive to gathering and interaction, roads, sidewalks, and medians. During the Class "B" Control Period, Declarant may designate such facilities and areas as open to the public. Thereafter, the Board may designate facilities and areas as open for public use.

7.10. Relationships with Other Properties.

The Association may enter into contractual agreements or covenants to share costs with any neighboring properties to contribute funds for, among other things, shared or mutually beneficial property or services and/or a higher level of Common Area maintenance.

7.11. Relationship with Governmental and Non-Profit Organizations.

The Association may enter into agreements or contracts with, or grant exclusive and/or non-exclusive easements over the Common Area to, state or local governments, public utility providers, and non-profit organizations for the benefit of the Community, the Association, and the Members. The Association may contribute money, real property (including Common Area), personal property, or services to any such entity. Any such contribution shall be a Common Expense and included as a line item in the Association's annual budget.

7.12. Education and Training.

The Association may provide or provide for, as a Common Expense, education and training activities as a tool for fostering Owner and resident awareness of the Community's governance, operations, and concerns. Appropriate educational topics include dispute or conflict resolution, issues involving the Governing Documents, and benefiting from and contributing to Water Oak as a planned community. The Association also shall fund and support any education and training required for officers and directors under the By-Laws.

Article VIII Association Finances

8.1. Budgeting and Allocating Common Expenses.

The Association is authorized to levy Regular Assessments against all Lots subject to assessment under, and in accordance with the allocations set forth in, Section 8.5 to fund the Common Expenses. Before the beginning of each fiscal year, the Board shall prepare a budget of the estimated Common Expenses for the coming year, including any contributions to be made to a reserve fund pursuant to Section 8.2. The budget shall reflect the sources and estimated

amounts of funds to cover such expenses, including any prior year's surplus or deficit, any non-assessment income, and anticipated assessment income.

In determining the Regular Assessment, the Board may consider any assessment income expected to be generated from any property reasonably anticipated to become subject to assessment during the fiscal year.

The budget is subject to ratification by the Owners at a meeting. The Board shall send a summary of the proposed budget and notice of the meeting to consider ratification of the budget not less than 10 nor more than 60 days prior to the date of the meeting. A quorum need not be present at the meeting and the notice to Owners shall include a statement that the budget may be ratified without a quorum being present. The budget shall be ratified unless, at such meeting, the Members representing a majority of the total Class "A" votes in the Association disapprove the budget.

Declarant may, but shall not be obligated to, reduce the Regular Assessment for any fiscal year by payment of a subsidy (in addition to any amounts paid by Declarant under Section 8.6(b)) which may be either a contribution, an advance against future assessments due from Declarant, or a loan, in Declarant's discretion. Any such subsidy shall be disclosed as a line item in the income portion of the budget. The payment of such subsidy in any year shall not obligate Declarant to continue paying a subsidy in future years, unless otherwise provided in a written agreement between the Association and Declarant.

If any proposed budget is disapproved, or the Board fails for any reason to determine the budget for any year, then the budget most recently in effect shall continue in effect until a new budget is determined.

The Board may revise the budget and adjust the Regular Assessment front time to time during the year, subject to the notice requirements set forth above and in North Carolina law.

8.2. Budgeting for Reserves.

The Board may, in its discretion and as it deems appropriate, include in the Common Expense budget a capital contribution to fund reserves which address, in whole or in part, the projected need with respect both to amount and timing by annual contributions over the budget period. Reserve budgets may take into account the number and nature of replaceable assets, the expected life of each asset, the expected repair or replacement cost, and the availability of funds from sources other than Regular Assessments (e.g., Special Assessments). So long as the Board exercises business judgment in determining the amount or necessity of the reserve fund, the amount shall be considered adequate even if less than the total amount reflected on the reserve budget.

The Board may adopt resolutions regarding the expenditure of any reserve funds, including policies designating the nature of assets for which reserve funds may be expended. During the Development and Sale Period, neither the Association nor the Board shall adopt, modify, limit, or expand such policies without Declarant's prior written consent.

The Board has no duty to fund reserves during any period that Declarant is funding Association budget deficits.

8.3. Special Assessments.

In addition to other authorized assessments, the Association may levy Special Assessments against the entire membership or against the Lots within any Service Area to cover unbudgeted expenses or expenses in excess of those budgeted. Except as otherwise specifically provided in this Declaration, any Special Assessment shall require the affirmative vote or written consent of Members representing at least a majority of the total Class "A" votes in the Association, or of the Owners within the affected Service Area, as applicable, and the affirmative vote or written consent of the Class "B" Member, if any. Special Assessments shall be payable in such manner and at such times as determined by the Board, and may be payable in installments extending beyond the fiscal year in which the Special Assessment is approved.

8.4. Benefited Assessments.

The Association may levy Benefited Assessments against one or more particular Lots as follows:

(a) to cover the costs, including overhead and administrative costs, of providing services to Lots pursuant to this Declaration, upon request of an Owner pursuant to any menu of special services which the Association may offer (which might include the items identified in Section 7.7), or pursuant to a Supplemental Declaration. Subject to Section 8.5, Benefited Assessments for the maintenance of an alley in accordance with Section 5.2 shall be levied equally against the Lots served by such alley, unless the Benefited Assessment is levied pursuant to subsection (b) below. Benefited Assessments for special services may be levied in advance of the provision of the requested service; and

(b) to cover costs incurred in bringing a Lot into compliance with the Governing Documents, or costs incurred as a consequence of the conduct of the Owner or occupants of the Lot, their agents, contractors, employees, licensees, invitees, or guests; provided, the Board shall give the Lot Owner prior written notice and an opportunity for a hearing, in accordance with the By-Laws, before levying any Benefited Assessment under this subsection.

Benefited Assessments may be levied (i) equally against each Lot receiving the same service; (ii) in accordance with the benefit received; or (iii) in such other reasonable manner as provided for in a Supplemental Declaration or as the Board deems appropriate, in its discretion.

8.5. Commencement of Assessment Obligation: Allocation: Time of Payment.

The obligation to pay assessments commences as to each Lot on the first day of the month following: (a) the month in which the Lot is made subject to this Declaration, or (b) the month in which the Board first determines a budget and levies assessments pursuant to this Article, whichever is later. Regular and Special Assessments shall be levied equally against all Lots subject to such assessments; provided, prior to a certificate of occupancy being issued for a dwelling on a Lot by the applicable governmental authority, any assessment for such Lot shall be

one-tenth (1/10) of the same assessment applicable to Lots for which a certificate of occupancy has been issued. The first annual Regular Assessment levied on each Lot shall be adjusted according to the number of months remaining in the fiscal year at the time assessments commence on the Lot.

Owners shall pay assessments in the manner and on the dates the Board establishes. The Board may require advance payment of assessments at closing of the transfer of title to a Lot and may impose special requirements for Owners with a history of delinquent payment. If the Board so elects, assessments may be paid in quarterly or monthly installments. Unless the Board otherwise provides, the Regular Assessment shall be due and payable in advance on the first day of each fiscal year. If any Owner is delinquent in paying any assessments or other charges levied on his Lot, the Board may require that the outstanding balance on all assessments be paid in full immediately.

8.6. Obligation for Assessments.

(a) Personal Obligation. Each Owner, by accepting a deed or entering into a recorded contract of sale for any Lot, covenants and agrees to pay all assessments authorized in the Governing Documents for each Lot owned. All assessments, together with interest (computed from the assessment's due date at a rate of 18% per annum), late charges as determined by Board resolution, costs, and reasonable attorneys' fees, shall be the personal obligation of each Owner and a lien upon each Lot until paid in full. Upon a transfer of title to a Lot, the grantee shall be jointly and severally liable for any assessments and other charges due at the time of conveyance.

The Board's failure to fix assessment amounts or rates or to deliver or mail each Owner an assessment notice shall not be deemed a waiver, modification, or a release of any Owner from the obligation to pay assessments. In such event, each Owner shall continue to pay Regular Assessments on the same basis as during the last year for which an assessment was made, if any, until a new assessment is levied, at which time the Association may retroactively assess any shortfalls in collections.

No Owner is exempt from liability for assessments by non-use of Common Area, abandonment of his or her Lot, or any other means. The obligation to pay assessments is a separate and independent covenant by each Owner. No reduction or abatement of assessments or set-off shall be claimed or allowed for any failure, alleged or otherwise, of the Association or Board to take some action or perform some required function, or for inconvenience or discomfort arising from making repairs or improvements, or for any other reason.

Upon written request, the Association shall furnish to any Owner liable for any type of assessment a certificate in writing signed by an Association officer setting forth whether such assessment has been paid. Such certificate shall be conclusive evidence of payment. The Association may require the advance payment of a reasonable processing fee for the issuance of such certificate.

(b) Declarant's Obligation to Fund Budget Deficits. During the Class "B" Control Period, Declarant shall fund the Association's budget deficit. The budget deficit is the difference between the amount of Regular Assessments levied on Lots, plus any other income received

during the fiscal year, and the amount of the Association's actual expenditures during the fiscal year, excluding reserve contributions. After termination of the Class "B" Control Period, the Association, and not Declarant, shall be responsible for such deficit and its funding.

Declarant's assessment obligations may be satisfied in the form of cash or by "in kind" contributions of services or materials, or by a combination of these. After termination of the Class "B" Control Period, Declarant shall pay assessments on Lots which it owns or which any of its Affiliates owns in the same manner as any other Owner.

8.7. Lien for Assessments.

The Association may record a lien against any Lot, including Declarant's Lots, to secure payment of assessments that remain unpaid for a period of 30 days or longer after becoming due. For purposes of this Section, assessments shall include interest, late charges (subject to North Carolina law), and costs of collection (including attorneys' fees). Such lien shall be superior to all other liens, except (a) the liens of all real estate taxes and other governmental assessments and charges against the Lot; (b) the lien or charge of any recorded first Mortgage (meaning any recorded Mortgage with first priority over other Mortgages) made in good faith and for value; (c) other recorded liens or encumbrances which by law would be superior; and (d) to the extent North Carolina law permits, the "Capital Improvement Lien" described below.

Notwithstanding the above, and subject to North Carolina law, any charges levied solely for the purpose of acquisition, development, or construction of infrastructure or capital improvements serving the Community (or to pay the cost to underwrite, service, and repay any debt incurred to finance any such acquisition, development, or construction) may be designated by the Board as a "Capital Improvement Assessment." To the extent North Carolina law permits, with respect to unpaid Capital Improvement Assessments, the Association may record a lien ("Capital Improvement Lien") which, regardless of the recording date, shall be superior to (a) the Association's lien for other Common Expenses, and (b) all other liens except those deemed superior under North Carolina law and which may not be made subordinate by this provision.

An Association lien under this Section may be enforced by suit, judgment, and judicial or nonjudicial foreclosure. To the extent required under N.C.G.S. 47F-3-116(c), an Association lien for delinquent assessments automatically terminates after three years from the lien's recordation, unless proceedings to enforce the lien are instituted within such time.

At a foreclosure sale, the Association may bid for the Lot and acquire, hold, lease, mortgage, and convey the Lot. The Association may sue for unpaid assessments and other charges without foreclosing or waiving its assessment lien.

Sale or transfer of any Lot shall not affect the assessment lien or relieve such Lot from the lien for any subsequent assessments. However, the sale or transfer of any Lot pursuant to foreclosure by the first Mortgagee extinguishes the lien relating to amounts due prior to the Mortgagee's foreclosure, other than amounts due under the Capital Improvement Assessment. The purchaser of a foreclosed Lot shall not be personally liable for assessments, other than Capital Improvement Assessments, on such Lot due prior to the foreclosure sale. Such unpaid

assessments shall be a Common Expense collectible from Owners of all Lots subject to assessment under Section 8.6, including such purchaser, its successors and assigns.

Notwithstanding the above, while the Association owns a Lot: (a) no right to vote shall be exercised on its behalf; (b) no assessment shall be levied on it; and (c) each other Lot shall be charged, in addition to its usual assessment, its pro rata share of the assessment that would have been charged such Lot had it not been acquired by the Association.

8.8. Exempt Property.

The following property shall be exempt from payment of assessments:

- (a) All Common Area and other portions of the Community which are not Lots; and
- (b) Any property dedicated to and accepted by any governmental authority or public utility.

In addition, both Declarant and the Association shall have the right, but not the obligation, to grant exemptions to schools, houses of worship, hospitals, or Lots owned by and used by Persons qualifying for tax exempt status under Section 501(c) of the Internal Revenue Code. Exemptions granted by Declarant shall be binding on the Association,

8.9. Use and Consumption Fees: Licenses and Royalties.

The Board may charge use and consumption fees to any Person using Association services or facilities and may determine the amount and method of determining such fees. Different fees may be charged to different classes of users (*e.g.*, Owners and non-Owners).

The Association may enter into license agreements with Declarant or other parties which permit the Association's use of trade names or service marks (*e.g.*, use of the name Water Oak). To the extent permitted by such license agreements, the Board may enter into sub-license agreements, under negotiated terms, which permit others within the Community to use such trade names and/or service marks. The Association may charge fees and collect royalties in connection with such sub-license agreements; provided, Declarant and any Affiliate of Declarant shall be exempt from payment of such license fees.

8.10. Capital Contribution Assessment.

Upon acquisition of record title to each Lot by the first Owner thereof other than Declarant, an Affiliate of Declarant, or a Builder, and upon each subsequent transfer of title to the Lot, a non-refundable capital contribution shall be made by or on behalf of the purchaser to the working capital of the Association in the initial amount of \$100.00 (which amount the Board may increase or decrease, in its discretion, from time to time). Such contribution shall be in addition to, not in lieu of, the annual Regular Assessment and shall not be considered an advance payment of such assessment. The Association shall deposit such funds in a restricted reserve fund to be used only for capital repairs, replacements, and improvements. The full amount of the capital contribution shall be due and collectible at the closing of the transfer of title to the Lot,

shall be the personal obligation of the purchaser, shall be secured by the Association's lien for assessments under Section 8.7, and shall be collectible by the Association in the same manner as other assessments under this Article VIII.

Article IX Additional Rights Reserved to Declarant

9.1. Annexation by Declarant.

Declarant may, from time to time, subject to this Declaration any adjacent or contiguous real property by a recorded Supplemental Declaration which describes the property being subjected; provided, any such annexation shall be consistent with the common scheme of development established for Water Oak. A Supplemental Declaration recorded pursuant to this Section shall not require the consent of any Person except the owner of such property, if other than Declarant,

Declarant's right to annex property pursuant to this Section shall expire upon termination of the Class "B" membership. Nothing in this Declaration shall require Declarant or any successor to subject additional property to this Declaration or to develop any property other than that described in Exhibit "A" in any manner whatsoever.

9.2. Withdrawal of Property.

During the Development and Sale Period, Declarant reserves the right to amend this Declaration to remove any unimproved portion of Water Oak from the coverage of this Declaration. "Unimproved" means that no structure has yet been built on the property. Such amendment shall not require the consent of any Person other than the Owner(s) of the property to be withdrawn, if not the Declarant. Except as provided in Section 7.1(b), if the property is Common Area, the Association's consent is required for such withdrawal,

9.3. Marketing and Sales Activities.

Notwithstanding anything in the Governing Documents to the contrary, Declarant, its Affiliates, and their designees, and Builders may construct and maintain upon portions of the Common Area and other property they own, such facilities, activities, and things as, in Declarant's opinion, may reasonably be required, convenient, or incidental to the construction or sale of Lots. Such permitted facilities, activities, and things shall include business offices, signs, flags (whether hung from flag poles or attached to a structure), model homes, sales offices, holding or sponsoring special events, and exterior lighting features or displays. In addition, if reasonably required, convenient, or incidental to construction or sales activities, Declarant, Declarant's Affiliates, and their designees, and Builders may park vehicles in areas other than garages, carports, or driveways, including on streets. Builder's rights under this Section are subject to Declarant's approval.

9.4. Right to Develop.

Declarant and its Affiliates and their respective employees, agents, and designees shall have a right of access and use and an easement over and upon all of the Common Area for the

purpose of making, constructing, and installing such improvements to the Common Area, and to other portions of Water Oak, as it deems appropriate in its discretion.

Each Owner acknowledges that Water Oak is a master planned community, the development of which is likely to extend over many years, and agrees and consents to all changes in (a) uses or density of Lots or dwellings within Water Oak, or (b) any Plat(s) and development plans, provided such changes are consistent with the scheme of development established for Water Oak.

Each Owner acknowledges and agrees that Plat(s) may be amended and that the present plans and themes for Water Oak's development may change and that he or she has not relied on any representation, warranty, or assurance by any Person (a) that any Lots, or other property or facilities will be added, modified, or eliminated within Water Oak; or (b) as to the financial or other impact of such action on any Owner. Each Owner acknowledges and agrees that he or she is not entitled to rely upon and has not received or relied upon any representations, warranties, or guarantees whatsoever as to: (a) the design, construction, completion, development, use, benefits, or value of Water Oak; or (b) the number, types, sizes, prices, or designs of any residential or non-residential structures or improvements built or to be built in any part of Water Oak.

9.5. Right to Approve Changes in Community Standards.

No amendment to or modification of any Use Restrictions, rules, or the Architectural Guidelines shall be effective without prior notice to and the written approval of Declarant during the Development and Sale Period.

9.6. Right to Transfer or Assign Declarant Rights.

Any or all of Declarant's special rights and obligations set forth in this Declaration or the By-Laws may be transferred in whole or in part to other Persons; provided, the transfer shall not reduce an obligation nor enlarge a right beyond that which Declarant has under this Declaration or the By-Laws. No such transfer or assignment shall be effective unless it is in a recorded instrument signed by Declarant. However, Declarant may allow other Persons to exercise, on a one-time or limited basis, any Declarant right without transferring the entire right. In such case, a recorded instrument is not required.

9.7. Community Systems.

Declarant reserves for itself, its Affiliates, successors, and assigns, a perpetual right and easement to install and operate within Water Oak such Community Systems as Declarant, in its discretion, deems appropriate to service the buildings and the structures within any Lot or other portion of the community. Such right shall include, without limitation, Declarant's right to select and contract with companies licensed to provide telecommunications, cable television, and other Community Systems services in the region, and to charge individual users a reasonable fee not to exceed the maximum allowable charge for such service, as from time to time is defined by the laws, rules, and regulations of the relevant government authority, if applicable.

9.8. Rights To Use Names.

The names "Arvida®," "St. Joe," "The St. Joe Company," "Saussy Burbank," and all similar or derivative names, along with all logos associated therewith, are proprietary trade names and service marks. No Person shall use such trade names or service marks, or the name "Water Oak at Lake Norman" or "Water Oak," for advertising or any other purpose in any promotional material, whether printed, audio, video, or otherwise, in any signage, or in any logo or depiction without the prior written consent of Declarant and the Person who owns such mark. In addition, due to the integrated nature of Water Oak as a planned community, and the public identification of the Lots with Water Oak, any name or "logo" to be used in connection with or displayed on any Lot, and any sales or other materials or documentation related to the use of the Lot, shall be subject to Declarant's prior written consent. Such approval may be given or withheld in Declarant's discretion and may be subject to such terms and conditions as Declarant deems appropriate.

Notwithstanding the above, Owners may use the name "Water Oak at Lake Norman" or "Water Oak" where such term is used solely to specify that particular property is located within Water Oak (subject, to such terms and conditions as Declarant may impose in order to protect its registered trade names and service marks). Subject to applicable licensing agreements, the Association may use the words "Water Oak at Lake Norman" or "Water Oak" in its name. Other use by the Association or any Owner is subject to the restrictions set out in this Section or otherwise imposed by Declarant.

9.9. Easement to Inspect and Right to Correct.

Declarant reserves for itself and others it may designate the right, but not the obligation, to inspect, monitor, test, redesign, and correct any structure, improvement, or condition which may exist on any portion of Water Oak, including Lots, and a nonexclusive easement of access throughout the Community to the extent reasonably necessary to exercise such right. Declarant's rights and easement in this regard shall not in any way assign or diminish an Owner's responsibility for the maintenance and care of his or her Lot.

Except in an emergency, entry onto a Lot shall be only after reasonable notice to the Owner and no entry into a dwelling or other structure on a Lot shall be permitted without the Owner's consent, which consent shall not unreasonably be withheld, conditioned, or delayed. The failure or refusal to permit reasonable access to the Lot for the purposes contemplated under this paragraph shall excuse Declarant or its designee from responsibility for repairs or damages relating to defective workmanship or materials. The Person exercising this easement shall promptly repair, and pay for, any resulting damage.

9.10. Right to Notice of Design or Construction Claims.

No Person shall retain an expert for the purpose of inspecting the design or construction of any structures or improvements within Water Oak in connection with or in anticipation of any potential or pending claim, demand, or litigation involving such design or construction unless Declarant and any Builder involved in the design or construction have first been notified in writing and given an opportunity to meet with the property Owner and conduct an inspection.

9.11. Termination of Rights.

Rights granted under this Article shall terminate upon the earlier of (a) the period specified in the particular Section; (b) 20 years from the date this Declaration is recorded; or (c) Declarant's recording of a statement that all sales activity has ceased. Thereafter, Declarant may continue to use the Common Areas for the purposes stated in this Article only pursuant to a rental or lease agreement between Declarant and the Association which provides for rental payments based on the fair market rental value of any such portion of the Common Areas. Notwithstanding the above, Declarant reserves for itself and its Affiliates a perpetual, non-exclusive easement of access to and use of the Common Areas in connection with the marketing and sale of other properties in order to show the Community as an example of Declarant's projects. This Article shall not be amended without Declarant's written consent.

9.12. Exclusion of Declarant's other Properties.

By accepting a deed to a Lot, each Owner, specifically acknowledges that nothing contained in this Declaration shall in any way, either expressly or by implication, restrict, limit, or otherwise affect the use or disposition by Declarant or any Affiliate of Declarant of any property either of them owns, whether contained within or contiguous to Water Oak. Declarant and its Affiliates shall have full, free, and unrestricted use of its other lands, notwithstanding any incompatibility of such use with restrictions this Declaration imposes upon the Lots. By accepting a deed to a Lot, each Owner, specifically and expressly disclaims any reciprocal negative easement in any property Declarant owns.

9.13. Additional Covenants and Easements.

By Supplemental Declaration, Declarant may impose additional covenants and easements on portions of the Community, including covenants obligating the Association to maintain and insure, specific property and authorizing the Association to recover its costs through Benefited Assessments or through "Service Area Assessments," as provided in Section 6.4. If someone other than Declarant owns the property, then such owner's consent and execution of the Supplemental Declaration is required. Any such Supplemental Declaration may supplement, create exceptions to, or otherwise modify the terms of this Declaration as it applies to the subject property in order to reflect the different character and intended use of such property.

Article X Easements

10.1. Easements in Common Area.

Declarant grants to each Owner a right and easement of use, access, and enjoyment in and to the Common Area, subject to:

- (a) The Governing Documents and any other applicable covenants;
- (b) Any restrictions or limitations contained in any deed conveying the property to the Association;

(c) The rights of certain Owners to the exclusive use of alleys and other portions of the Common Area designated Limited Common Areas, as may be set forth in the Governing Documents; and

(d) The Board's right to:

(i) adopt rules regulating Common Area use, including rules limiting the number of guests who may use the Common Area, and charge use fees for such use;

(ii) dedicate or transfer all or any part of the Common Area, subject to any approval requirements set forth in this Declaration;

(iii) mortgage, pledge, or hypothecate any or all of the Common Area as security for money borrowed or debts incurred subject to the approval requirements set forth in Section 13.5.

Any Owner may extend his or her right to use the Common Area to the members of his or her family, tenants, and social invitees, as applicable, subject to reasonable Board regulation. An Owner who leases his or her Lot shall be deemed to have assigned all such rights to the tenants of such Lot for the lease term.

10.2. Easements of Encroachment.

Declarant grants easements of encroachment, and for maintenance and use of any permitted encroachment, between each Lot and any adjacent Common Area and between adjacent Lots. A permitted encroachment is a structure or fixture which extends unintentionally on to another's property, a distance of less than one foot, as measured from any point on the common boundary along a line perpendicular to such boundary. An encroachment easement shall not exist if the encroachment results from willful and knowing conduct on the part of, or with the knowledge and consent of, the Person claiming the benefit of such easement.

10.3. Easements for Utilities, Etc.

(a) Installation and Maintenance. Declarant reserves for itself and its designees, and grants to the Association and utility providers, easements (which shall be perpetual unless specifically limited, and non-exclusive unless made exclusive) throughout Water Oak (but not through a structure) to the extent reasonably necessary to:

(i) install utilities and infrastructure to serve Water Oak, cable and other systems for sending and receiving data and/or other electronic signals, other Community Systems, drainage systems, and security and similar systems;

(ii) install walkways, pathways and trails, street lights, and signage on property which Declarant or the Association owns or within public rights-of-way or easements reserved for such purpose on a Plat;

(iii) inspect, maintain, repair, and replace the utilities, infrastructure, and other improvements described above; and

(iv) access and read utility meters.

Notwithstanding the above, Declarant reserves the right to deny access to any utility or service provider, to the extent permitted by law, or to condition such access on negotiated terms.

(b) Specific Easements. Declarant also reserves the non-exclusive right and power to grant and record such specific easements consistent with Section 10.3(a) as it deems necessary to develop the property described Water Oak. The location of the specific easement shall be subject to the written approval of the Owner of the burdened property, which approval shall not unreasonably be withheld, delayed, or conditioned.

(c) Minimal Interference. All work associated with the exercise of the easements described in subsections (a) and (b) of this Section shall be performed in such a manner as to minimize interference with the use and enjoyment of the property burdened by the easement. Upon completion of the work, the Person exercising the easement shall restore the property, to the extent reasonably possible, to the condition existing prior to the work. The exercise of these easements shall not extend to permitting entry into the structures on any Lot, nor shall it unreasonably interfere with the use of any Lot and, except in an emergency, entry onto any Lot shall be made only after reasonable notice to the Owner or occupant.

10.4. Easements for Maintenance, Emergency, and Enforcement.

Declarant grants to the Association easements over Water Oak (including Limited Common Areas and Lots) as necessary for the Association to fulfill its maintenance responsibilities under Section 7.2. The Association shall also have the right, but not the obligation, to enter upon any Lot for emergency, security, and safety reasons, to abate a Governing Document violation, to perform maintenance, and to inspect for the purpose of ensuring compliance with and enforcing the Governing Documents. Any member of the Board, and its duly authorized agents and assignees, including committee members, and all emergency personnel in the performance of their duties may exercise such right. Except in an emergency situation, entry shall only be during reasonable hours and after notice to the Owner.

10.5. Easements for Lake and Pond Maintenance and Flood Water.

Declarant reserves for itself, the Association, and their successors, assigns, and designees, the nonexclusive right and easement, but not the obligation, to enter upon bodies of water and wetlands located within the Common Maintenance Areas to (a) install, operate, maintain, and replace pumps to supply irrigation water to the Common Maintenance Areas; (b) construct, maintain, and repair structures and equipment used for retaining water; and (c) maintain such areas in a manner consistent with the Community-Wide Standard. Declarant, the Association, and their successors, assigns, and designees shall have an access easement over and across any portion of the Community which abuts or contains bodies of water or wetlands to the extent reasonably necessary to exercise their rights under this Section.

Declarant further reserves for itself, the Association, and their successors, assigns, and designees, a perpetual, nonexclusive right and easement of access and encroachment over the Common Area and Lots (but not inside a residence or other structure) adjacent to or within 100 feet of bodies of water and wetlands within Water Oak, in order to (a) temporarily flood and back water upon and maintain water over such portions of Water Oak; (b) alter in any manner and generally maintain the bodies of water and wetlands within the Common Maintenance Areas; and (c) maintain and landscape the slopes and banks pertaining to such areas. Anyone exercising these easements shall use reasonable care in and repair any damage resulting from their intentional exercise of the easements. Nothing herein shall be construed to make Declarant or any other Person liable for damage resulting from flooding due to natural occurrences or other occurrences not reasonably foreseeable or under the control of Declarant or such other Person.

10.6. Easements for Cross-Drainage.

All portions of the Community shall be burdened with easements for natural drainage of stormwater runoff from other portions of the Community; provided, no Person shall alter the natural drainage on any Lot to increase materially the drainage of stormwater onto adjacent portions of the Community without the consent of the Owner(s) of the affected property and the Board. In addition, during the Development and Sale Period, Declarant's consent is required.

10.7. Rights to Stormwater Runoff, Effluent, and Water Reclamation.

Declarant reserves for itself and its designees all rights to ground water, surface water, stormwater runoff, and effluent located or produced within the Community, and each Owner agrees, by acceptance of a deed to a Lot, that Declarant shall retain all such rights. Such rights shall include the reservation of an easement over the Community for access, and for installation and maintenance of facilities and equipment to capture and transport such water, runoff, and effluent. This Section may not be amended without Declarant's consent, and the rights created in this Section shall survive termination of this Declaration.

10.8. Easements Over Alleys.

Any alley which provides direct access to particular Lots shall be Limited Common Area which is intended for the primary use and enjoyment of the Owners and occupants of the Lots so served, and their respective guests and invitees. The Association also may access and use such alleys for all permitted purposes under the Governing Documents, including maintenance, repair, and replacement purposes. In addition, public emergency personnel (*i.e.*, police, fire, emergency medical, etc.) and other customary public service personnel (*i.e.*, mail delivery, FedEx, courier services, etc.) shall have an easement of access over all alleys for the performance of their duties. **The Association may take appropriate action to communicate and enforce the restricted use rights of the alleys (*e.g.*, posting signs, publishing rules, etc.); provided, there is no guarantee that unauthorized persons will be prevented from accessing the alleys or that every unauthorized person who uses an alley will be subjected to sanction.**

Article XI Party Walls and Other Shared Structures

11.1. General Rules of Law to Apply.

Each wall, fence, driveway, or similar structure built as part of the original construction on the Lots which serves and/or separates any two adjoining Lots shall constitute a party structure. To the extent not inconsistent with the provisions of this Section, the general rules of law regarding party walls and liability for property damage due to negligence or willful acts or omissions shall apply to party structures. Any dispute concerning a party structure shall be handled in accordance with the provisions of Article XII.

11.2. Maintenance; Damage and Destruction.

Unless otherwise specifically provided in additional covenants relating to such Lots, the Owners sharing the party structure shall share equally in the cost of necessary or appropriate party structure repairs and maintenance; provided, painting and other aesthetic modifications visible only to one side of the structure shall be the responsibility of the Lot Owner with such visibility,

If a party structure is destroyed or damaged by fire or other casualty, then to the extent that such damage is not covered by insurance and repaired out of the proceeds of insurance, any Owner sharing the structure may restore it and be entitled to contribution for the restoration cost in equal proportions from other sharing owners. However, such contribution will not prejudice the right to call for a larger contribution from the other users under any rule of Law regarding liability for negligent or willful acts or omissions.

The right of any Owner to contribution from any other Owner under this Section shall be appurtenant to the land and shall pass to such Owner's successors-in-title.

Article XII Dispute Resolution

12.1. Agreement to Encourage Resolution of Disputes Without Litigation.

(a) Declarant, the Association and its officers, directors, and committee members, all Persons subject to this Declaration, and any Person not otherwise subject to this Declaration who agrees to submit to this Article (collectively, "Bound Parties"), agree to attempt to resolve disputes involving Water Oak without the emotional and financial costs of litigation. Accordingly, each Bound Party agrees not to, directly or indirectly, file a law suit for a Claim described in subsection (b), without first submitting the Claim to the alternative dispute resolution procedures described in Section 12.2.

(b) As used in this Article, the term "Claim" shall refer to any claim, grievance, or dispute arising out of or relating to

(i) the interpretation, application, or enforcement of the Governing Documents;

(ii) the rights, obligations, and duties of any Bound Party under the Governing Documents;

(iii) the design or construction of improvements within the Community, other than matters of aesthetic judgment under Article IV, which shall not be subject to review; or

(iv) trespass, nuisance, property damage, or enforcement of laws, codes, or ordinances within Water Oak.

Except that the following shall not be considered "Claims" unless all parties to the matter otherwise agree to submit the matter to the procedures set forth in Section 12.2:

(i) any Association action to collect assessments or other amounts due from any Owner;

(ii) any Association action to obtain a temporary restraining order (or emergency equitable relief) and such ancillary relief as the court may deem necessary in order to maintain the status quo and preserve the Association's ability to enforce the provisions of this Declaration relating to creation and maintenance of community standards (Articles III and IV);

(iii) any suit which does not include Declarant or the Association as a party, if such suit asserts a Claim which would constitute a cause of action independent of the Governing Documents;

(iv) any suit which affects the material rights or obligations of a party who is not a Bound Party and has not agreed to submit to the procedures set forth in Section 12.2; and

(v) any suit as to which the applicable statute of limitations would expire within 180 days of giving the Notice required by Section 12.2(a), unless the party or parties against whom the Claim is made agree to toll, or extend, the Claim's statute of limitations to comply with this Article.

12.2. Dispute Resolution Procedures.

(a) Notice. The Bound Party asserting a Claim ("Claimant") against another Bound Party ("Respondent") shall give written notice ("Notice") by mail or personal delivery to each Respondent, and to the Board, stating plainly and concisely:

(i) the nature of the Claim, including the Persons involved and Respondent's role in the Claim;

(ii) the legal basis of the Claim (i.e., the specific authority out of which the Claim arises);

(iii) the Claimant's proposed resolution or remedy; and

(iv) the Claimant's desire to meet with the Respondent to discuss in good faith ways to resolve the Claim.

(b) Negotiation. The Claimant and Respondent shall make every reasonable effort to meet in person and confer for the purpose of resolving the Claim by good faith negotiation. If requested in writing, accompanied by a copy of the Notice, the Board may appoint a representative to assist the parties in negotiating a resolution of the Claim.

(c) Mediation. If the Bound Parties have not resolved the Claim through negotiation within 30 days of the date of the Notice (or within such other agreed upon period), the Claimant shall have 30 additional days to submit the Claim to mediation with an entity designated by the Association (if the Association is not a party to the Claim) or to an independent agency providing dispute resolution services in the Iredell County area. Each Bound Party shall present the mediator with a written summary of the Claim.

If the Claimant does not submit the Claim to mediation within such time, or does not appear for and participate in good faith in the mediation when scheduled, the Claimant shall be deemed to have waived the Claim, and the Respondent shall be relieved of any and all liability to the Claimant (but not third parties) on account of such Claim.

If the Bound Parties do not settle the Claim within 30 days after submitting the matter to mediation, or within such time as determined reasonable by the mediator, the mediator shall issue a notice of termination of the mediation proceedings indicating that the Parties are at an impasse and the date that mediation was terminated. The Claimant shall thereafter be entitled to file suit or to initiate administrative proceedings on the Claim, as appropriate.

Each Bound Party shall bear its own costs of the mediation, including attorneys' fees, and each Party shall share equally all fees charged by the mediator.

(d) Settlement. Any settlement of the Claim through negotiation or mediation shall be documented in writing and signed by the Bound Parties. If any Bound Party thereafter fails to abide by the terms of such agreement, then any other Bound Party may file suit or initiate administrative proceedings to enforce such agreement without the need to again comply with the procedures set forth in this Section. In such event, the Bound Party taking action to enforce the agreement shall, upon prevailing, be entitled to recover from the non-complying Bound Party (or each one in equal proportions) all costs incurred in enforcing such agreement, including, without limitation, attorneys' fees and court costs.

(e) Actions Involving Declarant – Final and Binding Arbitration. Except for disputes in which a party other than an Owner or the Association is an indispensable party, all disputes, including Claim described above, between an Owner or the Association and Declarant or any Affiliate of Declarant shall be resolved by final and binding arbitration in accordance with this subsection (e) and, except as specifically provided, shall not be submitted as a lawsuit or other proceeding in any North Carolina state court or federal court. This subsection (e) is an agreement to arbitrate and is specifically enforceable under North Carolina law. Any arbitration award shall be subject only to review by the North Carolina or federal appellate courts in the

same manner as are trial court judgments. Judgment may be entered upon the arbitration award in any court of competent jurisdiction to the fullest extent permitted under North Carolina law.

Prior to commencing arbitration under this subsection, the parties shall engage in negotiation and mediation in accordance with Sections 12.2(a)-(c), regardless of whether such matter is a Claim under Section 12.1. If negotiation and mediation are unsuccessful in resolving the dispute, the Owner or the Association, as applicable, shall have until expiration of the applicable statute of limitations under North Carolina law (as would apply to the same claim being brought in a North Carolina or federal court) to submit the dispute to the American Arbitration Association for arbitration in Iredell County. The American Arbitration Association shall appoint three arbitrators, including one attorney, to conduct the arbitration in accordance with its rules. The arbitrators shall render a written judgment accompanied by findings of fact and conclusions of law.

If not timely submitted to arbitration or if the Claimant fails to appear for the arbitration proceeding, the Claim shall be deemed abandoned, and the Respondent, shall be released and discharged from any and all liability to the Claimant arising out of the dispute. The parties shall share equally the costs of conducting the arbitration until a prevailing party is determined; provided, the prevailing party shall be entitled to recover all of its costs incurred in the action, including, without limitation, reasonable attorneys' fees.

12.3. Initiation of Litigation by Association.

After the Class "B" Control Period, the Association shall not initiate any judicial or administrative proceeding which is reasonably expected to cost at least \$100,000.00 in legal fees to prosecute to completion unless first approved by a majority of the Class "A" votes in the Association. Any Board recommendation to the Class "A" Members that a proceeding covered by this paragraph be commenced must be in writing and must be accompanied by a feasibility analysis including an explanation of the issues, a budget for legal and related expenses, the amount in controversy, the expectation of success, and a copy of bids from a minimum of three qualified law firms.

Article XIII Mortgagee Provisions

The following provisions are for the benefit of holders, insurers, and guarantors of first Mortgages on Lots. The provisions of this Article apply to both this Declaration and to the By-Laws, notwithstanding any other provisions contained therein.

13.1. Notices of Action.

An institutional holder, insurer, or guarantor of a first Mortgage which provides a written request to the Association (such request to state the name and address of such holder, insurer, or guarantor and the street address of the Lot to which its Mortgage relates, thereby becoming an "Eligible Holder"), will be entitled to timely written notice of:

(a) Any condemnation loss or any casualty loss which affects a material portion of the Community or which affects any Lot on which there is a first Mortgage held, insured, or guaranteed by such Eligible Holder;

(b) Any delinquency in the payment of assessments or charges owed by a Lot subject to the Mortgage of such Eligible Holder, where such delinquency has continued for a period of 60 days, or any other violation of the Governing Documents relating to such Lot or the Owner or occupant which is not cured within 60 days;

(c) Any lapse, cancellation, or material modification of any Association insurance policy;

(d) Any proposed action which would require the consent of a specified percentage of Eligible Holders; or

(e) If the U.S. Department of Housing and Urban Development is insuring or the U.S. Department of Veterans Affairs is guaranteeing the Mortgage on any Lot, material amendment to the Governing Documents or extraordinary action of the Association, as defined under VA Pamphlet 26-7.

13.2. No Priority.

No provision of this Declaration or the By-Laws gives or shall be construed as giving any Owner or other party priority over any rights of the first Mortgagee of any Lot in the case of distribution to such Owner of insurance proceeds or condemnation awards for losses to or a taking of the Common Area.

13.3. Notice to Association.

Upon request, each Owner shall be obligated to furnish to the Association the name and address of the holder of any Mortgage encumbering the Owner's Lot.

13.4. Failure of Mortgagee to Respond.

Any Mortgagee who receives a written request from the Board to respond to or consent to any action shall be deemed to have approved such action if the Association does not receive a written response from the Mortgagee within 30 days of the date of the Association's request, provided such request is delivered to the Mortgagee by certified or registered mail, return receipt requested.

13.5. HUD/VA Approval.

As long as there is a Class "B" membership, the following actions shall require the prior approval of the U.S. Department of Housing and Urban Development ("HUD") or the U.S. Department of Veterans Affairs ("VA"), if either such agency is insuring or guaranteeing the Mortgage on any Lot: merger, consolidation, or dissolution of the Association; annexation of additional property; dedication, conveyance (other than to correct errors on property descriptions

or other inconsequential or immaterial conveyances), or mortgaging of Common Area; or material amendment of this Declaration or the By-Laws. In addition, so long as HUD or VA insures or guarantees the Mortgage on any Lot, the above actions also shall require the prior approval of at least two-thirds (2/3) of the Class "A" Members and the consent of the Class "B" Member.

Notwithstanding anything to the contrary in Section 16.1 or this Section, the Association, acting through the Board, may grant easements over the Common Area for installation and maintenance of utilities and drainage facilities and for other purposes not inconsistent with the intended use of the Common Area, without the approval of the membership or HUD or VA.

Article XIV Disclosures and Waivers.

14.1. No Liability For Third Party Acts.

Owners and occupants of Lots, and their respective guests and invitees, are responsible for their own personal safety and for their property in Water Oak. The Association may, but is not obligated to, maintain or support certain activities within the Community which promote or enhance safety or security within the Community. However, the Association, Declarant, and Declarant's Affiliates shall not in any way be considered insurers or guarantors of safety or security within the Community, nor shall they be held liable for any loss or damage by reason of failure to provide adequate security or ineffectiveness of security measures undertaken.

No representation or warranty is made that any systems or measures, including fire protection, burglar alarm, or other security monitoring systems, or any mechanism or system for limiting access to the Community, cannot be compromised or circumvented, nor that any such systems or measures undertaken will in all cases prevent loss or provide the detection or protection, for which the system is designed or intended. Each Owner acknowledges, understands, and shall be responsible for informing its tenants and all occupants of its Lot that the Association, the Board and its committees, Declarant, and Declarant's Affiliates are not insurers or guarantors of security or safety and that each Person within Water Oak assumes all risks of personal injury and loss or damage to property, including Lots and the contents of Lots, resulting from acts of third parties.

14.2. View Impairment.

Neither Declarant nor the Association guarantee or represent that any view over and across the Lots or any open space within the Community will be preserved without impairment. Neither Declarant nor the Association shall be obligated to relocate, prune, or thin trees or other landscaping except to maintain the Community-Wide Standard or as otherwise required under a separate covenant or agreement. The Association (with respect to the Common Area) has the right to add trees and other landscaping from time to time subject to applicable law. Any express or implied easements for view purposes or for the passage of light and air are hereby expressly disclaimed.

14.3. Notices and Disclaimers as to Community Systems.

Any Community System and its providers, managers, and operators may be subject to federal, state, or municipal regulations, laws, and ordinances. Such regulations, laws, and ordinances may have a significant impact on certain aspects of the system including, but not limited to, the fees charged, the method of delivery, the rights of the system users, as well as the rights of the system providers or operators. These regulations and their impact are beyond the Association's and Declarant's control.

In recognition of the fact that interruptions in cable television and other Community Systems services will occur from time to time, neither Declarant nor any of Declarant's Affiliates, successors, or assigns shall in any manner be liable for, and no Community System user shall be entitled to refund, rebate, discount, or offset in applicable fees for, any interruption in Community Systems services, regardless of whether such interruption is caused by reasons within the service provider's control.

Each Owner acknowledges and agrees that the Association, by virtue of contractual relationships with Community Systems providers, may gain access to information relating to individual use of the Community Systems, including account and content information. In recognition of this fact, each Owner waives any privacy rights he or she may have in such information and any claims against the Association, the Board, Declarant, and Declarant's Affiliates relating to the acquisition of such information. Further, each Owner acknowledges and agrees that the acquisition of such information by the Association shall not create any duty on the part of the Association, Declarant, or Declarant's Affiliates to any Person to act in any manner with respect to such information.

Notwithstanding the above, or any other provisions in this Declaration, there is no guarantee or representation that any particular Community System will be made available.

14.4. Construction Activities.

All Owners, occupants, and users of Lots are hereby placed on notice that Declarant, any Affiliate of Declarant, and/or their agents, contractors, subcontractors, licensees, and other designees, successors, or assigns, may, from time to time, conduct construction activities within Water Oak. By the acceptance of a deed or other conveyance or mortgage, leasehold, license, or other interest, and by using any portion of a Lot or Water Oak generally, the Owners and all occupants and users of Lots acknowledge, stipulate, and agree (a) such activities shall not be deemed nuisances, or noxious or offensive activities, under any applicable covenants or at law generally; (b) not to enter upon, or allow their children or other Persons under their control or direction to enter upon (regardless of whether such entry is a trespass or otherwise) any property within or in proximity to the Lot where such activities are being conducted (even if not being actively conducted at the time of entry, such as at night or otherwise during non-working hours); (c) that Declarant, any Affiliate of Declarant, and all of their agents, contractors, subcontractors, licensees, and other designees, successors, and assigns, shall not be liable but, rather, shall be held harmless for any and all losses, damages, (compensatory, consequential, punitive, or otherwise), injuries, or deaths arising from of relating to the aforesaid activities; (d) that

any purchase or use of any portion of a Lot his been and will be made with full knowledge of the foregoing; and (e) this acknowledgement and agreement is a material inducement to Declarant or its Affiliates to sell, convey, lease, and/or allow the use of Lots within Water Oak.

14.5. Water Management.

Each Owner acknowledges and agrees that any lakes or wetlands are designed as water management areas and are not designed solely as aesthetic features. Due to fluctuations in ground water elevations within the immediate area, the water level of lakes will rise and fall. Each Owner further acknowledges and agrees that Declarant has no control over such elevations. Therefore, each Owner agrees to release and discharge Declarant and Affiliate of Declarant from and against any and all losses, claims, demands, damages, costs, and expenses of whatever nature or kind, including reasonable attorneys' fees and costs at all tribunal levels, related to or arising out of any claim relating to such fluctuations in water elevations.

Owners shall not alter, modify, expand, or fill any lakes or wetlands located within or in the vicinity of Water Oak without the prior written approval of the local permitting authority, Declarant, the U.S. Army Corps of Engineers (if it has authority over wetlands within Water Oak), and such other local, state, and federal authorities as may have relevant jurisdiction over such matters.

14.6. Liability for Association Operations.

The Association shall, to the fullest extent permitted by law, indemnify, defend, and hold harmless Declarant (including its Affiliates, successors, and assigns) from and against any and all losses, claims, demands, damages, costs, and expenses of whatever kind or nature (including, without limitation, reasonable attorneys' fees and costs at all tribunal levels and whether or not suit is instituted, including those incurred in establishing the right to be indemnified, defended, and held harmless pursuant hereto), which relate to or arise out of Association management and operations, including, without limitation, improvement, maintenance, and operation of amenities and other portions of the Common Maintenance Areas and the collection of assessments.

14.7. Conveyance of Common Areas.

Declarant shall convey to the Association, and the Association shall accept without recourse, the Common Areas, including all improvements constructed thereon, in their "Where-Is, As-Is" condition. Declarant hereby disclaims and makes no representations, warranties, or other agreements, express or implied, by law or fact, with respect to the Common Areas, including, without limitation, representations or warranties of merchantability regarding the condition, construction, accuracy, completeness, design, adequacy of size or capacity in relation to the utilization, date of completion, or the future economic performance or operations of, or the materials, furniture, or equipment used in, the Common Area. Neither the Association nor any Members shall make any claim against Declarant or its Affiliates relating to the condition,

operation, use, accuracy, or completeness of the Common Area, or for incidental or consequential damages arising therefrom.

Declarant shall transfer and assign to the Association, without recourse, all warranties received from manufacturers and suppliers relating to any of the Common Area which exist at the time of the transfer and are assignable.

Article XV Changes in Ownership of Lots

Any Owner, other than Declarant or any Affiliate of Declarant, desiring to sell or otherwise transfer title to his or her Lot shall give the Board at least 14 days' prior written notice of the name and address of the purchaser or transferee, the date of such transfer of title, and such other information as the Board may reasonably require. The transferor shall continue to be jointly and severally responsible with the transferee for all obligations of the Lot Owner, including assessment obligations, until the date upon which the Board, notwithstanding the transfer of title, receives such notice.

Article XVI Changes in Common Area

16.1. Condemnation.

Whenever any part of the Common Area is taken or conveyed under threat of condemnation by any authority having the power of eminent domain, the Board shall determine, in the exercise of its business judgment, whether each Owner is entitled to notice.

The award made for such taking shall be payable to the Association as trustee for all Owners to be disbursed as follows:

If the taking involves a portion of the Common Area on which improvements have been constructed, the Association shall restore or replace such improvements on the remaining land included in the Common Area to the extent practicable, unless, within 60 days after such taking, Declarant, during the Development and Sale Period, and at least 75% of the total Class "A" votes in the Association shall otherwise agree. Any such construction shall be in accordance with plans the Board approves. The provisions of Section 7.3 regarding funds for the repair of damage or destruction shall apply.

If the taking does not involve any Common Area improvements, or if a decision is made not to repair or restore, or if net funds remain after any such restoration or replacement is complete, then such award or net funds shall be disbursed to the Association and used for such purposes as the Board shall determine.

16.2. Partition.

Except as permitted in this Declaration, the Common Area shall remain undivided, and no Person shall bring any action for partition of any portion of the Common Area without the written consent of all Owners and Mortgagees. This Section shall not prohibit the Board from

acquiring and disposing of tangible personal property nor from acquiring and disposing of real property which may or may not be subject to this Declaration.

16.3. Transfer or Dedication of Common Area.

The Association may convey, dedicate, or otherwise transfer portions of the Common Area to Iredell County, the Town of Mooresville, or to any other local, state, or federal governmental or quasi-governmental entity, subject to such approval as may be required by Section 13.5.

Article XVII Amendment of Declaration

17.1. By Declarant.

In addition to specific amendment rights granted elsewhere in this Declaration, during the Class "B" Control Period, Declarant may unilaterally amend this Declaration for any purpose.

Thereafter, Declarant may unilaterally amend this Declaration if such amendment is necessary (a) to bring any provision into compliance with any applicable governmental statute, rule, regulation, or judicial determination; (b) to enable any reputable title insurance company to issue title insurance coverage on the Lots; (c) to enable any institutional or governmental lender, purchaser, insurer, or guarantor of mortgage loans, including, for example, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, HUD, or VA, to make, purchase, insure, or guarantee mortgage loans on the Lots; or (iv) to satisfy the requirements of any local, state, or federal governmental agency. However, any such amendment shall not adversely affect the title to any Lot unless the Owner shall consent in writing.

17.2. By Class "A" Members.

Except as otherwise specifically provided above and elsewhere in this Declaration, this Declaration may be amended only by the affirmative vote or written consent, or any combination thereof, of Members representing at least 75% of the Association's total Class "A" votes. In addition, during the Development and Sale Period, Declarant's written consent is required for any amendment.

Notwithstanding the above, the percentage of votes necessary to amend a specific clause shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause.

17.3. Validity and Effective Date.

No amendment may remove, revoke, or modify any right or privilege of Declarant or the Class "B" Member without the written consent of Declarant or the Class "B" Member, respectively (or the assignee of such right or privilege). An amendment shall not be effective unless the approval requirements set forth in Article XIII also shall be met, if applicable.

If an Owner consents to any amendment to this Declaration or the By-Laws, it will be conclusively presumed that the Owner has the authority to consent, and no contrary provision in any Mortgage or contract between the Owner and a third party will affect the validity of such amendment.

Any amendment shall become effective upon the earliest of (a) actual notice; (b) recording; or (c) later effective date specified in the amendment. Any procedural challenge to an amendment must be made within one year of its recordation or such amendment shall be presumed to have been validly adopted. In no event shall a change of conditions or circumstances operate to amend any provisions of this Declaration.

17.4. Exhibits.

Exhibit "A" attached to this Declaration is incorporated by this reference. Exhibit "B" is incorporated by reference and may be amended as provided in Article III or pursuant to Sections 17.1 and 17.2. Exhibit "C" is attached for informational purposes and may be amended as provided therein.

[Signatures set forth on the following page]

IN WITNESS WHEREOF, the undersigned Declarant has executed this Declaration the date and year first written above.

DECLARANT: ARVIDA MID-ATLANTIC HOMES, INC.,
a North Carolina corporation

By: [Signature]
Name: DANIEL A. ALMERS
Its: V. PRESIDENT
Attest: [Signature]
Name: Diane Best
Its: Asst. Secretary

STATE OF NORTH CAROLINA
COUNTY OF Mecklenburg

I, the undersigned Notary Public of the County and State aforesaid, certify that Daniel A. Almers personally came before me this day and acknowledged that he/she is the Vice President of Arvida Mid-Atlantic Homes, Inc., a North Carolina corporation, and that by the authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by Daniel A. Almers, its Vice President, sealed with the corporate seal and attested by Diane Best, its Assistant Secretary

Witness my hand and official stamp or seal this 7th day of August, 2002.

[Signature]
Notary Public
My Commission Expires: _____

Louise A. Smith, Notary Public
Union County, North Carolina
My Commission Expires 9/18/2004



EXHIBIT "A"

Land Initially Submitted

EXHIBIT "A"

Land Initially Submitted

Legal Description

Lying and being in the Town of Mooresville, County of Iredell, State of North Carolina and more particularly described as follows:

All of Tract 1 as shown on plat entitled "FINAL PLAT OF FRANCES L. NANTZ PROPERTY" as shown on plat recorded in Map Book 37, Page 57, Iredell County Public Registry.

Together with all of Declarant's right, title and interest in the land lying between the southernmost boundary of Tract I as described above and the centerline of N.C. Highway 150.

Except and excluding that portion of property conveyed to Duke Power Company by deed recorded in Book 347, Page 35, Iredell County Public Registry.

EXHIBIT "B"

Initial Use Restrictions

EXHIBIT "B"

Initial Use Restrictions

The purpose of Architectural Guidelines and Use Restrictions is not to anticipate all acceptable or unacceptable behavior in advance and eliminate all improvements, or activities which fall outside of "the norm." In fact, it is expressly intended that the Reviewer under Article IV, and the Board, as appropriate, have discretion to approve or disapprove items, or to enforce or not enforce technical violations of the Governing Documents, based upon aesthetic or other considerations consistent with the established guidelines. As such, while something may be approved or permitted for one Lot under one set of circumstances, the same thing may be disapproved for another Lot under a different set of circumstances. The exercise of discretion in approving or enforcement shall not be construed as a waiver of approval or enforcement rights, nor shall it estop the Board from taking enforcement action in any appropriate circumstances.

Subject to the above, the following restrictions shall apply to all of Water Oak until such time as they are amended, modified, repealed, or limited pursuant to the Declaration.

(a) Animals and Pets. No animals of any kind, including livestock and poultry, shall be raised, bred, or kept on any portion of the Community; provided, a reasonable number of usual and common household pets may be kept on a Lot; and provided further, in any event, the following breeds of dog (including mixed-breed dogs containing such breeds), because of concerns relating to aggressive behavior and the safety of others in the Community, are prohibited from being kept within the Community: (i) rottweilers, (ii) pit bulls, and (iii) Doberman pinschers. The Board shall have discretion in determining what types and numbers of pets are permissible.

Upon the Board's request, an Owner, at his or her expense, shall remove any pet which is permitted to roam free, or, in the Board's discretion, endangers health, makes objectionable noise, or constitutes nuisance or inconvenience to other Owners or residents of any portion of the Community. If the Owner fails to honor such request, the Board may cause the pet to be removed at the Owner's expense. No pets shall be kept, bred, or maintained for any commercial purpose. Dogs shall be kept on a leash or otherwise confined and restrained in a manner acceptable to the Board whenever outside a structure. Animal and pet owners must immediately remove and properly dispose of the bodily waste of their animals and pets on the Common Areas.

(b) Wildlife. Capturing, killing, or trapping wildlife is prohibited within the Community, except in circumstances imposing an imminent threat to the safety of Persons or pets.

(c) Firearms; Fireworks. The use and discharge of firearms within the Community is prohibited. The term "firearms" includes "B-B" guns, pellet guns, and other firearms of all types, regardless of size. The use and discharge of fireworks is prohibited except by license granted by the Association.

(d) Nuisances. No Owner shall engage in any activity which constitutes a nuisance (meaning offensive or detrimental activity, as determined by the Board), or which materially disturbs or destroys the vegetation, wildlife, or air quality within the Community, or which results in unreasonable levels of sound or light pollution.

(e) Garages. Garage doors shall remain closed except for temporary periods reasonably related to the active use of the garage, as determined in the Board's discretion.

(f) Exterior Lighting. Excessive exterior lighting on any Lot is prohibited. The Board, in its discretion, shall determine whether any exterior lighting is excessive.

(g) Storage of Goods. Storage (except in approved structures or containers) of furniture, fixtures, appliances, machinery, equipment, or other goods and chattels on the Common Area (except by the Association), or, if not in active use, any portion of a Lot which is visible from outside the Lot is prohibited.

(h) Prohibited Conditions. The following conditions, structures, or activities are prohibited on any Lot:

(i) Dogs runs and animal pens of any kind, unless properly screened and approved in accordance with Article IV;

(ii) Shacks or other structures of a temporary nature on any Lot except as may be authorized by Declarant during the initial construction of improvements within the Community. Temporary structures used during the construction or repair of a dwelling or other improvements shall be removed immediately after the completion of construction or repair;

(iii) Permanent basketball goals, basketball standards, or backboards which are or would be visible from any street or Common Area; provided, portable basketball goals may be used on a Lot without prior approval, but must be stored so as not to be visible from any street or Common Area overnight or otherwise when not in use;

(iv) Freestanding flagpoles; provided, flags may be displayed using a bracket or other approved device mounted to a dwelling so long as the size of the flag displayed does not exceed a standard size (as set forth in the Architectural Guidelines or determined in the Board's discretion and set forth in a Board rule); and

(v) Detached storage sheds.

In any event, and notwithstanding the above list of prohibited conditions, as set forth in Article IV, any structure, improvement, or thing proposed for construction, erection, installation, or placement on a Lot requires prior Reviewer approval unless otherwise specifically exempt under the Architectural Guidelines.

(i) Quiet Enjoyment. Nothing shall be done or maintained on any part of a Lot which emits foul or obnoxious odors outside the Lot or creates noise or other conditions which

tend to disturb the peace, quiet, safety, comfort, or serenity of the occupants and invitees of other Lots.

No noxious, illegal, or offensive activity shall be carried on upon any portion of the Community which, in the Board's reasonable determination, tends to cause embarrassment, discomfort, annoyance, or nuisance to others.

(j) Signs. No sign shall be erected within the Community, except those required by law, including posters, circulars, and billboards; provided, the following types of signs may be erected on a Lot without the Board's written consent: (i) residential identification signs for identification of the occupant and its address, in a style designated by the Architectural Guidelines or approved by the Reviewer; (ii) during the period that the Lot is being offered for sale, "For Sale" signs or "Open House" signs of a size, style, and number designated by the Architectural Guidelines or approved by the Reviewer; and (iii) security signs in a style and location designated by the Architectural Guidelines or approved by the Reviewer. This restriction shall not apply to entry, directional, and marketing signs installed by Declarant or with the Declarant's consent. The Association, with the Board's approval, shall have the right to erect signs on the Common Area.

Political signs are prohibited.

(k) Holiday Decorations. Owners may display holiday decorations on their Lots if the decorations are of the kinds normally displayed in single family residential neighborhoods, are of reasonable size and scope, and do not disturb other Owners and residents by excessive light or sound emission or by causing an unreasonable amount of spectator traffic. Permitted decorations may be displayed for such periods as are normal and customary for comparable residential communities, as the Board determines.

(l) Antennas and Satellite Dishes. No antenna, satellite dish, or other device for the transmission or reception of television or radio (including amateur or ham radios) signals is permitted outside the dwelling on a Lot, except those devices whose installation and use specifically is protected and permitted under federal law or regulations (generally, certain antennae and satellite dishes under one meter in diameter). In any event, no antenna, satellite dish, or other device may be installed outside the dwelling on a Lot unless an application for the installation of such device is first submitted to the Reviewer for approval prior to being installed. Approval will be granted only if:

(i) First, the antenna, satellite dish, or other device is designed for minimal visual intrusion (i.e., is located and mounted in a manner that minimizes visibility from the street or an adjacent Lot), is properly screened, and is otherwise consistent with the Community-Wide Standard; and

(ii) Second, the antenna, satellite dish, or other device complies with the color and appearance requirements set forth in the Architectural Guidelines (without precluding reception of a quality signal or unreasonably increasing the cost of the antenna, satellite dish, or other device).

The Reviewer shall consider any such application on an expedited basis.

Notwithstanding the above, Declarant and/or the Association may erect an antenna, satellite dish, or other apparatus for a master antenna, cable, or other communication system for the benefit of all or a portion of Water Oak, should any master system or systems be used by the Association and require such exterior apparatus.

(m) Trash Containers and Collection. No garbage or trash shall be placed or kept on any Lot, except in covered containers of a type, size, and style specifically designated under the Architectural Guidelines or approved by the Reviewer, or as required by the applicable governing jurisdiction. Such containers shall be screened from view outside of the Lot except when they are being made available for collection and then only for the shortest time reasonably necessary to effect such collection. Rubbish, trash, and garbage must be removed from the Lots and may not accumulate on any Lot. Outdoor incinerators may not be kept or maintained on any Lot.

(n) Pool Equipment. All pool equipment stored on any Lot shall be screened from view from outside the Lot. Above-ground pools are prohibited within the Community.

(o) Unightly or Unkempt Conditions. All portions of a Lot outside enclosed structures shall be kept in a clean and tidy condition at all times. No rubbish or debris of any kind shall be placed or permitted to accumulate upon or adjacent to any Lot in a manner which is unsanitary, unsightly, offensive, or detrimental to any other portion of the Community, as the Board may determine.

Woodpiles or other material shall be properly screened and stored in such a manner so as not to attract rodents, snakes, and other animals and or create a fire hazard, as the Board determines. No activities shall be conducted upon or adjacent to any Lot or within any structure on a Lot which are or might be unsafe or hazardous to any Person or property. Open fires are prohibited within the Community, except in a contained outdoor fireplace or barbecue unit while attended and in use for cooking purposes.

(p) Vehicles and Parking. As used in this Section, the term "vehicles" includes, without limitation, automobiles, trucks, boats, trailers, motorcycles, campers, vans, and recreational vehicles.

No vehicle may be parked or left upon any portion of a Lot except in a garage or carport, on a driveway, or on other portions of the Lot (if any) the Board designates as being an acceptable parking area. The following vehicles may be parked only in an enclosed garage or in a carport: recreational vehicles, mobile homes, trailers, campers, stored vehicles, commercial vehicles (including all vehicles with commercial lettering or logos), and unlicensed or inoperable vehicles. "Sports utility vehicles" and "mini-vans" (as such vehicles are commonly referred to, as determined in the Board's discretion) and pick-up trucks without raised enclosures or commercial writing or logos shall be treated as automobiles and may be parked outside of carports or enclosed garages. Boats may be kept or stored outside of an enclosed garage or a

carport only if properly screened from view from outside of the Lot in a manner the Reviewer requires. This Section shall not apply to emergency vehicle repairs or to construction, service, and delivery vehicles for periods necessary to perform the services or make a delivery.

Notwithstanding the above, for purposes of cleaning, loading, unloading, and short-term and visitor parking, any vehicle may be parked outside of an enclosed garage or a carport temporarily and irregularly (in any event, not to exceed four consecutive hours at any one time), to accommodate such use. The Board, in its discretion, may enact rules governing such temporary, irregular use or, in the absence of specific rules, shall have discretion in determining what constitutes permissible use.

(q) Wetlands, Lakes, and Other Water Bodies. Wetlands, lakes, ponds, and streams within the Community, if any, are part of the Communities stormwater management or drainage system, and no active use of lakes, ponds, streams, or other bodies of water within the Community is permitted. The Association shall not be responsible for any loss, damage, or injury to any person or property arising out of the authorized or unauthorized use of lakes, ponds, streams, or other bodies of water within or adjacent to the Community.

(r) Solar Equipment. No solar heating equipment or device is permitted outside the residence except such devices whose installation and use is protected by federal or North Carolina law. Notwithstanding such protection, an application for such equipment or device must be submitted for approval under Article IV prior to installation and approval will be granted only if:

(i) First, such equipment or device is designed for minimal visual intrusion when installed (i.e., is located in a manner which minimizes visibility from the street or an adjacent Lot and is consistent with, the Community-Wide Standard); and

(ii) Second, the equipment or device complies to the maximum extent feasible with the Architectural Guidelines within the confines of the applicable governmental regulations.