

(10) any income or other taxes on any funds held by the Association as a reserve for its purposes or otherwise;

(11) the cost of installation and maintenance of a master TV antenna system for all units, if such master TV antenna system is constructed and installed; and

(12) the cost of employing an independent manager to supervise and manage the Properties.

(D) Assessment and Payment of Common Expenses. Subject to the provisions of subsection 11.1(A) hereof, the total amount of the estimated funds required from assessments for the operation of the Property set forth in the budget adopted by the Board of Directors shall be assessed against each Unit Owner in proportion to his respective Percentage Interest, except for Limited Common Expenses which shall be assessed against each Unit Owner benefited in proportion to the relative Percentage Interest of such Units inter se, and shall be a lien against each Unit Owner's Unit as provided in Section 11.2 of these By-Laws. On or before the first day of each fiscal year, and the first day of each of the succeeding eleven months in such fiscal year, each Unit Owner shall be obligated to pay to the Board of Directors or the Managing Agent (as determined by the Board of Directors), one-twelfth of such assessment or in annual quarterly installments as determined by the Board of Directors. Within ninety days after the end of each fiscal year, the Board of Directors shall supply to all Unit Owners, and to each Mortgagee requesting the same, an itemized accounting of the Common Expenses for such fiscal year actually incurred and paid, together with a tabulation of the amounts collected pursuant to the budget adopted by the Board of Directors for such fiscal year, and showing the net amount over or short of the actual expenditures plus reserves. Any amount accumulated in excess of the amount required for actual expenses and reserves shall, at the discretion of the Board of Directors, be placed in reserve accounts, be placed in a special account to be expended solely for the general welfare of the Unit Owners, or be credited according to each Unit Owner's Percentage Interest to the next monthly or quarterly installment due from Unit Owners under the current fiscal year's budget, until exhausted. Any net shortage shall be assessed promptly against the Unit Owners in accordance with their Percentage Interests and shall be payable either:

(1) in full with payment of the next monthly or quarterly assessment due; or

(2) in not more than four equal monthly installments, as the Board of Directors may determine.

(E) Reserves. The Board of Directors shall build up and maintain reasonable reserves for working capital, operations, contingencies and replacements. Extraordinary expenditures not originally included in the annual budget which may become necessary during the year shall be charged first against such reserves. If the reserves are inadequate for any reason, including non-payment of any Unit Owner's assessment, the Board of Directors may at any time levy a further assessment, which shall be assessed against the Unit Owners according to their respective Percentage Interests, and which may be payable in a lump sum or in installments as the Board of Directors may determine. The Board of Directors shall serve notice of any such further assessment on Unit Owners by a statement in writing giving the amount and reasons therefor.

All Unit Owners so notified shall be obligated to pay the adjusted monthly amount or, if such further assessment is not payable in installments, the amount of such assessment. Such assessment shall be a lien as of the effective date as set forth in the preceding subsection (C).

(F) Initial Capital Payment.

(1) Upon taking office, the first Board of Directors elected or designated pursuant to these By-Laws shall determine the budget, as defined in this Section, for the period commencing thirty days after such selection and ending on the last day of the fiscal year in which such selection occurs. Assessments shall be levied and become a lien against the Unit Owners during such period as provided in subsection (C) of this Section;

(2) The Declarant as the agent of the Board of Directors, will collect from each initial purchaser at the time of settlement an "initial capital payment" equivalent to twice the estimated monthly assessment for Common Expenses for such purchaser's Unit. The Declarant will deliver the funds so collected to the Board of Directors to provide the necessary working capital for the "Association". Such funds may be used for certain prepaid items, initial equipment, supplies, organizational costs and other start-up costs, and for such other purposes as the Board of Directors may determine.

(G) Effect of Failure to Prepare or Adopt Budget. The failure or delay of the Board of Directors to prepare or adopt a budget for any fiscal year shall not constitute a waiver or release in any manner of a Unit Owner's obligation to pay his allocable share of the Common Expenses as herein provided whenever the same shall be determined and, in the absence of any annual budget or adjusted budget, each Unit Owner shall continue to pay each monthly installment at the monthly rate established for the previous fiscal year until notified of the monthly payment which is due more than ten days after such new annual or adjusted budget is adopted.

(H) Accounts. All sums collected by the Board of Directors with respect to assessments against the Unit Owners or from any other source may be commingled into a single fund or held for each Unit Owner in accordance with his Percentage Interest.

7.2. Payment of Common Expenses. Each Unit Owner shall pay the Common Expenses, including Limited Common Expenses, assessed by the Board of Directors pursuant to the provisions of Section 7.1. No Unit Owner shall be liable for the payment of any part of the Common Expenses assessed against his Unit subsequent to the date of recordation of a conveyance by him in fee of such Unit. Prior to or at the time of such conveyance, all liens, unpaid charges and assessments shall be paid in full and discharged. The purchaser of a Unit shall be jointly and severally liable with the selling Unit Owner for all unpaid assessments against the latter for his proportionate share of the Common Expenses up to the time of such recordation, without prejudice to the purchaser's right to recover from the selling Unit Owner amounts paid by the purchaser therefor; provided, however, that any such purchaser shall be entitled to a statement setting forth the amount of the unpaid assessments against the selling Unit Owner within seven business days following a written request therefor to the Board of Directors or Managing Agent and such purchaser shall not be liable for, nor shall the

7.3. Collection of Assessments and Default. The payment of any assessment or installment thereof shall be in default if such assessment or installment is not paid to the "Association" within thirty days of the due date for such payment. When in default, the delinquent assessment or delinquent installment thereof due to "Association" shall bear interest at the highest rate allowed by law until such delinquent assessment or installment thereof, and all interest due thereon, has been paid in full to "Association". All monies owing to "Association" shall be due and payable at the main office of "Association" in the State of North Carolina, or as determined by the Board of Directors.

7.4. Liability. The Owner or Owners of each Condominium Unit shall be personally liable, jointly and severally, to the Association for the payment of all assessments, regular or special, which may be levied by the "Association" against such Condominium Unit while such party or parties are Owner or Owners of a Condominium Unit. In the event that any Unit Owner or Owners are in default in payment of any assessment or installment thereof owed to the "Association", such Unit Owner or Owners shall be personally liable, jointly and severally, for interest on such delinquent assessment or installment thereof as above provided, and for all costs of collecting such assessment or installment thereof and interest thereon, including a reasonable attorney's fee, whether suit be brought or not.

No Owner of a Condominium Unit may exempt himself from liability for any assessment levied against him or his Condominium Unit by waiver of the use or enjoyment of any of the Common Property, or by abandonment of the Condominium Unit or in any other way.

7.5. Lien and Enforcement. Recognizing that proper operation and management of the Condominium requires the continuing payment of costs and expenses therefor, and that such proper operation and maintenance results in benefit to all of the Owners of Condominium Units, and that the payment of such common expenses represented by the assessments levied and collected by the "Association" is necessary in order to preserve and protect the investment of each Unit Owner, the "Association" is hereby granted a lien upon each Condominium Unit and its appurtenant undivided interest in Common Property, which lien shall secure and does secure the monies due for all assessments now or hereafter levied against the Owner of each such Condominium Unit, which lien shall also secure interest, if any, which may be due on the amount of any delinquent assessments owing to the "Association", and which lien shall also secure all costs and expenses, including reasonable attorneys' fees, which may be incurred by the "Association" in enforcing this lien upon said Condominium Unit and its appurtenant undivided interest in Common Elements. The lien granted to the Association may be foreclosed in the same manner that real estate deeds of trust and mortgages may be foreclosed in the State of North Carolina, and in any suit for the foreclosure of said lien, the "Association" shall be entitled to a reasonable rental from the Owner of any Condominium Unit from the date on which the payment of any assessment or installment thereof became delinquent, and shall be entitled to the appointment of a Receiver for said Condominium Unit. The lien granted to the "Association" shall further secure such advances for taxes, and payments on account of superior mortgages, liens or encumbrances which may be required to be advanced by the "Association" in order to preserve and protect its lien, and the "Association" shall further be entitled to interest at the highest rate allowed by law on any such advances made for such purpose. All persons, firms or corporations who shall acquire,

granted to the "Association", and shall acquire such interest in any Condominium Unit expressly subject to such lien rights.

The lien herein granted unto the "Association" shall be enforceable from and after the time of recording a claim of lien in the Public Records of Dare County, North Carolina, which claim shall state the description of the Condominium Unit encumbered thereby, the name of the record owner, the amount due and the date when due. The claim of lien shall be recordable any time after default and the lien shall continue in effect until all sums secured by said lien as herein provided shall have been fully paid. Such claims of lien shall include only assessments which are due and payable when the claim of lien is recorded, plus interest, costs, attorneys' fees, advances to pay taxes and prior encumbrances and interest thereon, all as above provided. Such claims of lien shall be signed and verified by an officer or agent of the "Association". Upon full payment of all sums secured by such claim of lien, the same shall be satisfied of record.

The lien provided for herein shall be subordinate to the lien of any mortgage or deed of trust and any person, firm or corporation acquiring title to any Condominium Unit and its appurtenant undivided interest in Common Elements by virtue of any foreclosure, deed in lieu of foreclosure or judicial sale, shall be liable and obligated only for assessments as shall accrue and become due and payable for said Condominium Unit and its appurtenant undivided interest in Common Property subsequent to the date of acquisition of such title, and it shall not be liable for the payment of any assessments which were in default and delinquent at the time it acquired such title. In the event of the acquisition of title to a Condominium Unit by foreclosure, deed in lieu of foreclosure or judicial sale, any assessment or assessments as to which the party so acquiring title shall not be liable shall be absorbed and paid by all Owners of all Condominium Units as a part of the common expense, although nothing herein contained shall be construed as releasing the party liable for such delinquent assessment from the payment thereof or the enforcement of collection of such payment by means other than foreclosure.

Institution of a suit at law to attempt to effect collection of the payment of any delinquent assessment shall not be deemed to be an election by the "Association" which shall prevent it from thereafter seeking, by foreclosure action, enforcement of the collection of any sums remaining owing to it, nor shall proceeding by foreclosure to attempt such collection be deemed to be an election precluding the institution of a suit at law to collect any sum then remaining owing to "Association".

7.6. Statement of Common Expenses. The Board of Directors shall promptly provide any Unit Owner, contract purchaser or Mortgagee so requesting the same in writing with a written statement of all unpaid assessments for Common Expenses due from such Unit Owner. The Board of Directors may impose a reasonable charge for the preparation of such statement to cover the cost of preparation.

7.7. Maintenance, Repair, Replacement and Other Common Expenses.

(A) By the Board of Directors. The Board of Directors shall be responsible for the maintenance, repair and replacement (unless, if in the opinion of not less than eighty percent of the Board of Directors such expense was necessitated by the negligence, misuse or neglect of a

shall be charged to all Unit Owners as a Common Expenses; provided, however, that each Unit Owner shall perform normal maintenance on the Limited Common Elements appurtenant to this Unit and any portion of the remaining Common Elements which the Board of Directors pursuant to the Rules and Regulations has given him permission to utilize, including without limitation the items enumerated in subsection (B) hereof.

(B) By the Unit Owner. Every Owner shall perform promptly all maintenance and repair work within his Condominium Unit which, if omitted would affect the Condominium, either in its entirety or in part belonging to other owners, every owner being expressly responsible for the damages and liability which his failure to do so may engender. The Owner of each Condominium Unit shall be liable and responsible for the maintenance, repair and replacement, as the case may be, of all air conditioning and heating equipment, stoves, refrigerators, fans, or other appliances or equipment, including any fixtures and or their connections required to provide water, light, power, telephone, sewage and sanitary service to his Condominium Unit. Such Owner shall further be responsible and liable for the maintenance, repair and replacement of the exterior surfaces of any and all walls, ceilings and floors within his Unit, including painting, decorating and furnishings, and all other accessories which such Owner may desire to place or maintain in his Condominium Unit. Whenever the maintenance, repair, and replacement of any item for which the Owner of a Condominium Unit is obligated to maintain, replace or repair at his own expense is occasioned by any loss or damage which may be covered by any insurance maintained in force by the "Association", the proceeds of the insurance received the "Association" shall be used for the purpose of making such maintenance, repair or replacement except that the Owner of such Condominium Unit shall be, in said instance, required to pay such portion of the costs of such maintenance, repair and replacement as shall, by reason of the applicability of any deductibility provision of such insurance, exceed the amount of the insurance proceeds applicable to such maintenance, repair or replacement. The Owner of a Condominium Unit who has exclusive use of any Limited Common Area and Facility shall maintain such at his own expense, unless said Limited Common Elements have been specifically designated by the Board of Directors as maintenance responsibility of the "Association". All glass doors, window frames, panes and screens are a part of the respective Condominium Units and shall be maintained by the respective Unit Owners.

(C) Chart of Maintenance Responsibilities. Notwithstanding the general provisions for maintenance set forth in subsections (A) and (B) above, specific maintenance responsibilities and projected costs attributable thereto shall, to the extent set forth thereon, be determined pursuant to the Chart of Maintenance Responsibilities attached as Exhibit E hereto.

(D) Manner of Repair and Replacement. All repairs and replacements shall be substantially similar to the original construction and installation and shall be of first-class quality, but may be done with compatible building materials and equipment. The method of approving payment vouchers for all repairs and replacements shall be determined by the Board of Directors.

7.8. Additions, Alterations or Improvements by Board of Directors. Except during Declarant Control Period, whenever in the judgment of the Board of Directors the Common Elements shall require additions, alterations or improvements costing in excess of Ten Thousand Dollars during any period of twelve consecutive months, the making of such

Limited Common Expense). Any additions, alterations or improvements costing Ten Thousand Dollars or less during any period of twelve consecutive months may be made by the Board of Directors without approval of the Unit Owners and the cost thereof shall constitute a Common Expense or Limited Common Expense, depending on the nature of the additions, alterations or improvements. The Ten Thousand Dollar limitation shall be increased annually by the percentage equal to any percentage increase in the annual budget of the Condominium. Notwithstanding the foregoing, if in the opinion of not less than eighty percent of the members of the Board of Directors, such additions, alterations or improvements are exclusively or substantially exclusively for the benefit of the Unit Owner or Unit Owners requesting the same, such requesting Unit Owners shall be assessed therefor in such proportion as they jointly approve or, if they are unable to agree thereon, in such proportion as may be determined by the Board of Directors.

7.9. Additions, Alterations or Improvements by the Unit Owners. No Unit Owner shall make any structural additions, alteration or improvement in or to his Unit without the prior written consent of the Board of Directors or the Covenants Committee as appropriate. No Unit Owners shall paint or alter the exterior of his Unit, including the doors and windows, nor shall any Unit Owner paint or latex the exterior of any building, without the prior written consent of the Board of Directors or the Covenants Committee as appropriate. The Board of Directors shall be obligated to answer any written request by a Unit Owner for approval of a proposed structural addition, alteration or improvement in such Unit Owner's Unit within sixty days after such request, and failure to do so within the stipulated time shall constitute a consent by the Board of Directors or the Covenants Committee to the proposed structural addition, alteration or improvement. If any application to any governmental authority for a permit to make any such structural addition, alteration or improvement in or to any Unit requires execution by the "Association", and provided consent has been given by the Board of Directors, then the application shall be executed on behalf of the "Association" by the Board of Directors by the Board of Directors only, without however incurring any liability on the part of the Board of Directors or any of them to any contractor, subcontractor or materialman on account of such addition, alteration or improvement, or to any person having claim for injury to person or damage to property arising therefrom. Subject to the approval of any Mortgagee of such affected Units, the Board of Directors and any Unit Owner affected, any Unit may be subdivided or may be altered so as to relocate the boundaries between such Unit and any adjoining Units. The Secretary shall record any necessary amendment to the Declaration to effect such action by recording the same in the Dare County Registry. The provisions of this Section 7.9 shall not apply to Units owned by the Declarant until deeds of conveyance of such Units shall have been recorded; provided, however, that Declarant's construction or alterations shall be architecturally compatible with existing Units. The Declarant shall have the right to make such alterations or subdivisions without the consent of the Board of Directors, and the Board of Directors shall execute any such application required.

7.10. Restrictions on Use of Units and Common Elements; Rules and Regulations.

(A) Restrictions. Each Unit and the Common Elements shall be occupied and used as follows:

other than housing and the related common purposes for which the Property was designed. The Board of Directors may permit reasonable, temporary non-residential uses from time to time. Nothing in these By-Laws shall be construed to prohibit the Declarant from using any Unit owned by Declarant for promotional, marketing or display purposes or from using any appropriate portion of the Common Elements for settlement of sales of Condominium Units and for warranty administration purposes.

(2) Nothing shall be done or kept in any Unit or in the Common Elements which will increase the rate of insurance for the Property or any part thereof applicable for residential use without the prior written consent of the Board of Directors. No Unit Owner shall permit anything to be done or kept in his Unit or in the Common Elements which will result in the cancellation of insurance on the Property or any part thereof or which would be in violation of any law, regulation or administrative ruling. No waste shall be committed on the Common Elements.

(3) No immoral, improper, offensive or unlawful use shall be made of the Property or any part thereof, and all valid laws, zoning ordinances and regulations of all governmental agencies having jurisdiction thereof shall be observed. All laws, orders, rules, regulations or requirements of any governmental agency having jurisdiction thereof relating to any portion of the Property shall be complied with, by and at the sole expense of the Unit Owner or the Board of Directors, whichever shall have the obligation to maintain or repair such portion of the Property, and, if the latter, then the cost of such compliance shall be a Common Expense.

(4) No Unit Owner shall obstruct any of the Common Elements nor shall any Unit Owner place or cause or permit anything to be placed on or in any of the Common Elements without the approval of the Board of Directors. Nothing shall be altered or constructed in or removed from the Common Elements except upon the prior written consent of the Board of Directors or the Covenants Committee, as appropriate.

(5) The Common Elements shall be used only for the furnishing of the services and facilities for which the same are reasonably suited and which are incident to the use and occupancy of the Units.

(6) No portion of any Unit (other than the entire Unit) shall be leased for any period. No Unit Owner shall lease a Unit other than on a written form of lease: (i) requiring the lessee to comply with the Condominium Instruments and Rules and Regulations; (ii) providing that failure to comply constitutes a default under the lease, and (iii) providing that the Board of Directors has the power to terminate the lease or to bring summary proceedings to evict the tenant in the name of the lessor thereunder after thirty days prior written notice to the Unit Owner, in the event of a default by the tenant in the performance of the lease. The Board of Directors may provide a suggested standard form lease for use by Unit Owners. Each Unit Owner of a Condominium Unit shall, promptly following the execution of any lease of a Condominium Unit, forward a conformed copy thereof to the Board of Directors. The foregoing provisions of this paragraph, shall not apply to the Declarant, or to a Mortgagee in possession of a Unit as a result of foreclosure, judicial sale or a proceeding in lieu of foreclosure.

(7) No trailers, campers, mobile-homes, recreational vehicles, and other large vehicles may be parked on the Property. No junk or derelict vehicle or other vehicle on which current registration plates are not

(8) The maintenance, keeping, boarding and/or raising of animals, livestock, poultry or reptiles of any kind, regardless of number, shall be and is prohibited within the Unit or upon the Common Elements, except that the keeping of small, orderly domestic pets (e.g., dogs, cats or caged birds not to exceed one animal per Unit without the approval of the Board of Directors, is permitted, subject to the Rules and Regulations adopted by the Board of Directors; provided, however, that such pets are not kept or maintained for commercial purposes or for breeding and provided, further, that any such pet causing or creating a nuisance or unreasonable disturbance or noise may be permanently removed from the Property upon ten days written notice from the Board of Directors. Such pets shall not be permitted upon the Common Elements unless accompanied by an adult and unless carried or leashed. Any Unit Owner who keeps or maintains any pet upon any portion of the Property shall be deemed to have indemnified and agreed to hold the "Association", each Unit Owner and the Declarant free and harmless from any loss, claim or liability of any kind or character whatever arising by reason of keeping or maintaining such pet within the Condominium. All pets shall be registered with the Board of Directors and shall otherwise be registered and inoculated as required by law. The Board of Directors may establish reasonable fees for registration of pets not to exceed the additional costs incurred by the "Association" resulting from the presence of such pets.

(9) Except for such signs as may be posed by the Declarant for promotional or marketing purposes, no signs of any character shall be erected, posted or displayed upon, in, from or about any Unit or Common Elements without the prior written consent of the Board of Directors. The foregoing provisions of this paragraph shall not apply to a Mortgagee in possession of a Unit as a result of foreclosure, judicial sale or a proceeding in lieu of foreclosure.

(10) No Unit may be divided or subdivided into smaller units. Units may be combined in accordance with the provisions of Article VII, Section 7.7(B) in which event the Percentage Interest in the Common Elements would be the total percentages of each of the units prior to their joinder.

(11) In the event a master antenna system is installed at Scrimshaw, no television antennas, radio receiver or sender or other similar device shall be attached to or installed on the exterior portion of any structure or any lot; provided, however, that the provisions of this paragraph shall not apply to the installation of equipment necessary for a CATV and mobile radio system within Scrimshaw.

(12) All motorized vehicles operating within Scrimshaw must be properly mufflered so as to eliminate noise which might be offensive to others. Two and three wheel motorized vehicles as well as four wheel "go-cart" or "beach buggy" type vehicles are prohibited from being used or operated within Scrimshaw.

(13) No person shall do any act to modify or change the landscaping of the Common Elements or Limited Common Elements including the planting or removing of any shrubbery or trees, without the express written authority of the Board of Directors. The Board of Directors, at its discretion, may adopt and promulgate rules and regulations regarding the preservation of trees and other natural resources and wildlife upon the Properties.

Limited Common Element.

(B) Changes to Rules and Regulations. Each Unit and the the Common Elements shall be occupied and used in compliance with the Rules and Regulations which may be promulgated and changed by the Board of Directors. Copies of the Rules and Regulations shall be furnished by the Board of Directors to each Unit Owner. Changes to the Rules and Regulations shall be conspicuously posted prior to the time when the same shall become effective and copies thereof shall be furnished to each Unit Owner upon request.

(C) Architectural Control. To preserve the architectural appearance of Scrimshaw, after the purchase of a Condominium Unit from Declarant, its successors, or assigns, no exterior construction of any nature whatsoever, except as specified in the "Act" or this Declaration, shall be commenced or maintained upon any building, including without limitation, the Limited Common Areas and Facilities, nor shall there be any change, modification, or alteration of any nature whatsoever of the design and appearance of any of the exterior surfaces, or facades, nor shall any owner paint, decorate, or change the color of any exterior surface, gate, fence, or roof, nor shall any owner change the design or color of the exterior lights, nor shall any owner install, erect, or attach to any part of the exterior any sign of any kind whatsoever, nor shall any exterior addition or change, including without limitation, the generality of the foregoing, the erection or construction of any fence or wall, be made unless and until the plans and specifications showing the nature, kind, shape, height, materials, color, and location of the same shall have been submitted and approved in writing as to harmony of exterior design, color, and location in relation to the surrounding structures by the Board after review of any written proposal by the Covenants Committee [see: Article V, Sec. 5.18 of these By-Laws] and said Committee has made recommendations to the Board of Directors for their consideration. The Declarant shall be exempt from these provisions during the Declarant Control Period.

7.11. Right of Access. By acceptance of this deed of conveyance, each Unit Owner, thereby grants a right of access to his Unit, as provided by Section 5.2 of the Declaration, to the Board of Directors or the Managing Agent, or any other person authorized by the Board of Directors or the Managing Agent, or any group of the foregoing, for the purpose of enabling the exercise and discharge of their respective powers and responsibilities, including without limitation making inspections correcting any condition originating in his Unit or in a Common Element to which access is obtained through his Unit and threatening another Unit or the Common Elements, performing installations, alterations or repairs to the mechanical or electrical services or the Common Elements in his Unit or elsewhere in the property or to correct any condition which violates any Mortgage; provided, however, that requests for entry are made in advance and that any such entry is at a time reasonably convenient to the Unit Owner. In case of an emergency, such right of entry shall be immediate, whether or not the Unit Owner is present.

7.12. Utility Charges. The cost of utilities serving the Condominium not individually metered to a Unit shall be Common Expense allocated pursuant to Section 7.1 hereof.

(A) All parking spaces shall be used by the Unit Owners for self-service parking purposes on a "first come, first served" basis; provided, however, that no Unit Owner shall park more than two vehicles (owned or leased by such Unit Owner, a member of his family or a tenant residing in his Unit) on the Common Element parking spaces without the prior written consent of the Board of Directors. The cost of maintenance and repair of all parking areas shall be a Common Expense. (B) No trucks used for commercial purposes, or trucks over one-half ton capacity may be parked overnight. Only vehicles bearing current licenses and registration tags may be parked overnight. The "Association" shall have the right to authorize the towing away of any violating vehicles with costs to be borne by the owner or operator thereof.

ARTICLE VIII

INSURANCE

8.1. Authority to Purchase; Notice.

(A) Except as otherwise provided in Section 8.5, all insurance policies relating to the Property shall be purchased by the Board of Directors. The Board of Directors, the Managing Agent and the Declarant shall not be liable for failure to obtain any coverages required by this Article VIII or for any loss or damage resulting from such failure if such failure is due to the unavailability of such coverages from reputable insurance companies, or if such coverages are available only at a demonstrably unreasonable cost. The Board of Directors shall promptly furnish to each Unit Owner written notice of the procurement of, subsequent changes in, or termination of, insurance coverages obtained on behalf of the "Association".

(B) Each such policy shall provide that:

(1) The insurer waives any right to claim by way of subrogation against the Declarant, the "Association", the Board of Directors, the Managing Agent or the Unit Owners, and their respective agents, employees, guests and, in the case of the Unit Owners, the members of their households;

(2) Such policy shall not be cancelled, invalidated or suspended due to the conduct of any Unit Owner (including his invitees, agents or employees) or of any member, officer or employee of the Board of Directors or the Managing Agent without a prior demand in writing that the Board of Directors or the Managing Agent cure the defect and neither shall have so cured such defect within sixty days after such demand;

(3) Such policy may not be cancelled or substantially modified (including cancellation for nonpayment of premium) without at least sixty days prior written notice to the Board of Directors and the Managing Agent and, in the case of physical damage insurance, to all Mortgagees.

(C) The Declarant, so long as Declarant shall own any Unit, shall be protected by all such policies as a Unit Owner.

(D) All policies of insurance shall be written by reputable companies licensed to do business in the State of North Carolina. Physical damage policies shall be in form and substance and with carriers acceptable to Mortgagees holding a majority of the Mortgages (based upon one vote for each Mortgage owned).

8.2. Physical Damage Insurance.

(A) The Board of Directors shall obtain and maintain a blank "all-risk" form policy of fire insurance with extended coverage, vandalism, malicious mischief, windstorm, debris removal, cost of demolition and water damage endorsements, insuring the entire Property including fixtures and appliances initially installed by the Declarant but not including furniture, wall coverings, furnishings or other personal property supplied or installed by Unit Owners, and covering the interests of the "Association", the Board of Directors and all Unit Owners and their Mortgagees, as their interests may appear, (subject, however, to the loss payment and adjustment provisions in favor of the Board of Directors as Insurance Trustee contained in Section 8.6 and 8.7), in an amount equal to 100% of the then current replacement cost of the Property (exclusive of the Land, foundations and other items normally excluded from such coverage), without deduction for depreciation (such amount to be redetermined annually by the Board of Directors with the assistance of the insurance company affording such coverage).

(B) Such policy shall also provide:

(1) A waiver of any right of the insurer to repair, rebuild or replace any damage or destruction, if a decision is made pursuant to these By-Laws not to do so;

(2) The following endorsements (or equivalent): (i) "no control" (to the effect that coverage shall not be prejudiced by any act or neglect of any occupant or Unit Owner or their agents when such act or neglect is not within the control of the insured, or the Unit Owners collectively; nor by any failure of the insured, or the Unit Owners collectively, to comply with any warranty or condition with regard to any portion of the Condominium over which the insured, or the Unit Owners collectively, have no control); (ii) "contingent liability from operation of building laws or codes"; (iii) "increased cost of construction" or "condominium replacement cost"; and (iv) "agreed amount" or elimination of co-insurance clause; and

(3) That any "no other insurance" clause expressly exclude individual Unit Owners' policies from its operation so that the physical damage policy purchased by the Board of Directors shall be deemed primary coverage and any individual Unit Owners' policies shall be deemed excess coverage, and in no event shall the insurance coverage obtained and maintained by the Board of Directors hereunder provide for or be brought into contribution with insurance purchased by individual Unit Owners or their Mortgagees, unless otherwise required by law.

(C) A duplicate original of the policy of physical damage insurance and all renewals thereof, and any subpolicies or certificates and endorsements issued hereunder, together with proof of payment of premiums, shall be delivered by the insurer to any Mortgagee requesting the same, at least thirty days prior to expiration of the then current policy. Prior to obtaining any policy of physical damage insurance or any renewal thereof the Board of Directors shall obtain an appraisal from an insurance company, or such other source as the Board of Directors may determine, of the then current replacement cost of the Property (exclusive of the Land, excavations, foundations and other items normally excluded from such coverage), without deduction for

Mortgagees shall be notified promptly of any event giving rise to a claim under such policy arising from damage to the Common Elements in excess of one percent of the then current replacement cost of the Property. The Mortgagee of a Unit shall be notified promptly of any event giving rise to a claim under such policy arising from damage to such Unit.

8.3. Liability Insurance. The Board of Directors shall obtain and maintain comprehensive general liability (including libel, slander, false arrest and invasion of privacy coverage and errors and omissions coverage for directors) and property damage insurance in such limits as the Board of Directors may from time to time determine, insuring each member of the Board of Directors, the Managing Agent, each Unit Owner and the Declarant against any liability to the public or to the Unit Owners (and their invitees, agents and employees) arising out of, or incident to the ownership and/or use of the Common Elements. Such insurance shall be issued on a comprehensive liability basis and shall contain:

(A) a cross liability endorsement under which the rights of a named insured under the policy shall not be prejudiced with respect to his action against another named insured;

(B) hired and non-owner vehicle coverage;

(C) host liquor liability coverage with respect to events sponsored by the "Association";

(D) deletion of the normal products exclusion with respect to events sponsored by the "Association"; and

(E) a "severability of interest" endorsement which shall preclude the insurer from denying liability to a Unit Owner because of negligent acts of the "Association" or of another Unit Owner. The Board of Directors shall review such limits once a year, but in no event shall such insurance be less than One Million Dollars covering all claims for bodily injury or property damage arising out of one occurrence. Reasonable amounts of "umbrella" liability insurance in excess of the primary limits shall also be obtained in an amount not less than Three Million Dollars.

8.4. Other Insurance. The Board of Directors shall obtain and maintain:

(A) adequate fidelity coverage to protect against dishonest acts on the part of officers, directors, trustees and employees of the "Association" and all others who handle, or are responsible for handling, funds of the "Association", including the Managing Agent. Such fidelity bonds shall:

(1) name the "Association as an obligee;

(2) be written in an amount not less than one-half the total annual condominium assessments for the year or the amount required by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, whichever is greatest; and

(3) contain waivers of any defense based upon the exclusion of persons who serve without compensation from any definition of "employee" or similar expression;

or the Federal Home Loan Mortgage Corporation, flood insurance in accordance with the then applicable regulations of such agency;

(C) workmen's compensation insurance if and to the extent necessary to meet the requirements of law;

(D) such other insurance as the Board of Directors may determine or as may be requested from time to time by a Majority of the Unit Owners.

8.5. Separate Insurance. Each Unit Owners shall have the right, at his own expense, to obtain insurance of his own Unit and for his own benefit and to obtain insurance coverage upon his personal property and for his personal liability as well as upon any improvements made by him to his Unit under coverage normally called "improvements and betterments coverage"; provided, however, that no Unit Owner shall be entitled to exercise his right to acquire or maintain such insurance coverage so as to decrease the amount which the Board of Directors, on behalf of all Unit Owners, may realize under any insurance policy maintained by the Board of Directors or to cause any insurance coverage maintained by the Board of Directors to be brought into contribution with insurance coverage obtained by a Unit Owner. All such policies shall contain waivers of subrogation. No Unit Owner shall obtain separate insurance policies on the Condominium except as provided in this Section 8.5

8.6. Insurance Trustee.

(A) All physical damage insurance policies purchased by the Board of Directors shall be for the benefit of the "Association", the Unit Owners, their Mortgagees and the Declarant, as their interests may appear, and shall provide that all proceeds of such policies shall be paid in trust to the Board of Directors as "Insurance Trustee" to be applied pursuant to the terms of Article VIII.

(B) The sole duty of the Board of Directors as Insurance Trustee shall be to receive such proceeds as are paid to it and to hold the same in trust for the purposes elsewhere stated in these By-Laws, for the benefit of the insured and their beneficiaries thereunder.

ARTICLE IX

REPAIR AND RECONSTRUCTION AFTER FIRE OR OTHER CASUALTY

9.1. When Repair and Reconstruction are Required. Except as otherwise provided in Section 9.4, in the event of damage to or destruction of all or any part of the building as a result of fire or other casualty, the Board of Directors shall arrange for and supervise the prompt repair and restoration of the building, including any damaged Units, but not including any furniture, furnishings, fixtures, equipment or other personal property supplied or installed by the Unit Owners in the Units. Notwithstanding the foregoing, each Unit Owner shall have the right to supervise the interior redecorating of his own Unit.

9.2. Procedure for Reconstruction and Repair.

(A) Cost Estimates. Immediately after a fire or other casualty causing damage to any portion of the building, the Board of Directors shall obtain reliable and detailed estimates of the cost of repairing and restoring such portion (including any damaged Units and any floor coverings and kitchen and bathroom fixtures and appliances initially

bonds as the Board of Directors as Insurance Trustee determines to be necessary.

(B) Assessments. If the proceeds of insurance are not sufficient to defray such estimated costs of reconstruction and repair, or if upon completion of reconstruction and repair the funds for the payment of the costs thereof are insufficient, the amount necessary to complete such reconstruction and repair may be obtained from the appropriate reserve for replacement funds and/or shall be deemed a Common Expense and a special assessment therefor shall be levied.

(C) Plans and Specifications. Any such reconstruction or repair shall be substantially in accordance with the original construction of the Property, subject to any modifications required by changes in applicable governmental regulations, and using compatible building materials and technology to the extent feasible.

9.3. Disbursements of Construction Funds.

(A) The proceeds of insurance collected on account of casualty, and the sums received by the Board of Directors as Insurance Trustee from collections of assessments against Unit Owners on account of such casualty, shall constitute a construction fund which shall be disbursed in payment of the costs of reconstruction and repair in the following manner:

(1) If the estimated cost of reconstruction and repair is less than Fifty Thousand Dollars, then the construction fund shall be disbursed in payment of such costs upon order of the Board of Directors; provided, however, that upon request of twenty percent of the Mortgagees (based upon one vote for each Mortgage owned), such fund shall be disbursed pursuant to paragraph (2).

(2) If the estimated cost of reconstruction and repair is Fifty Thousand Dollars or more, then the construction fund shall be disbursed in payment of such costs upon approval of an architect qualified to practice in North Carolina and employed by the Board of Directors as Insurance Trustee to supervise such work, payment to be made from time to time as the work progresses. The architect shall be required to furnish a certificate giving a brief description of the services and materials furnished by various contractors, subcontractors, materialmen, the architect and other persons who have rendered services or furnished materials in connection with the work stating that: (i) the sums requested by them in payment are justly due and owing and that such sums do not exceed the value of the services and materials furnished; (ii) there is no other outstanding indebtedness known to such architect for the services and materials described; and (iii) the cost as estimated by such architect for the work remaining to be done subsequent to the date of such certificate does not exceed the amount of the construction fund remaining after payment of the sum so requested.

(B) Surplus. The first monies disbursed in payment of the cost of reconstruction and repair shall be from insurance after the payment of all of the costs of the reconstruction and repair for which the fund is established, such balance shall be divided among all Unit Owners in proportion to their Percentage Interests and shall be distributed in accordance with the priority of interests at law or in equity in each Unit.

repairing those portions of the Common Elements which enclose and service the Units, then to the cost of repairing the other Common Elements and thereafter to the cost of repairing the Units.

(D) Certificate. The Board of Directors as Insurance Trustee shall be entitled to rely upon a certificate executed by the President or Vice President, and the Secretary certifying:

- (1) whether the damaged Property is required to be reconstructed and repaired;
- (2) the name of the payee and the amount to be paid with respect to disbursement from any construction fund whether surplus funds to be distributed are less than the assessments paid by the Unit Owners; and
- (3) all other matters concerning the holding and disbursing of any construction fund.

Any such certificate shall be delivered to the Board of Directors as Insurance Trustee promptly after request.

9.4. When Reconstruction Is Not Required. In the event the Board of Directors elects not to repair insubstantial damage to the Common Elements, the Board of Directors shall remove all remains of the damaged improvements and restore the site thereof to an acceptable condition compatible with the remainder of the Condominium and the balance of any insurance proceeds received on account of such damage shall be distributed among all Unit Owners in proportion to their respective Percentage Interest. If the Condominium shall be terminated pursuant to "Act", the net assets of the Condominium together with the net proceeds of insurance policies, if any, shall be divided by the Board of Directors as Insurance Trustee among all Unit Owners in proportion to their respective Percentage Interests, after first paying out of the share of each Unit Owner, to the extent sufficient therefor, the amount of any unpaid liens on his Unit in the order of priority of such liens.

ARTICLE X

MORTGAGES

10.1. Notice to Board of Directors. A Unit Owner who mortgages his Unit shall notify the Board of Directors of the name and address of his Mortgagee and shall file a conformed copy of the note and Mortgage with the Board of Directors.

10.2. Notice of Default, Casualty or Condemnation. The Board of Directors, when giving notice to any Unit Owner of a default in paying an assessment for Common Expenses or any other default, shall simultaneously send a copy of such notice to the Mortgagee of such Unit. Each Mortgagee shall also be promptly notified of any casualty when required by subsection 8.2(C) hereof, of all actions taken under Article IX and of any taking in condemnation or by eminent domain and actions of the "Association" with respect thereto. For purposes of this section only, when notice is to be given to a Mortgagee, the Board of Directors shall also give such notice to the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Veterans Administration, the Federal Housing Administration, the Farmer's Home Administration, the Government National Mortgage Association and any other public or private secondary mortgage market entity participating

10.3. Notice of Amendment of Declaration of By-Laws. The Board of Directors shall give notice to all Mortgagees at least seven days prior to the date on which the Unit Owners, in accordance with the provisions of these By-Laws, materially amend the Condominium Instruments.

10.4. Notice of Change in Managing Agent. The Board of Directors shall give notice to all Mortgagees at least thirty days prior to changing the Managing Agent.

10.5. Mortgagees' Approvals. Unless at least sixty-six and two-thirds percent of the Mortgagees (based upon one vote for each Mortgage owned) and at least sixty-six and two-thirds percent of the Unit Owners (other than the Declarant) have given their prior written approval, the "Association" shall not:

(A) Change any Unit's Percentage Interest in Common Expenses and Common Profits or in the Common Elements, except as provided in Article VI, Section 6.3 of the Declaration;

(B) partition, subdivide, abandon, encumber, sell or transfer the Common Elements of the Condominium (except for the granting of utility easements, etc. pursuant to Article V, Section 5.5 of the Declaration;

(C) by act or omission withdraw the submission of the Property to the Condominium Act, except as provided by Article VII of the Declaration;

(D) modify the method of determining and collecting assessments or allocating distributions of casualty insurance proceeds or condemnation awards; or

(E) use hazard insurance proceeds for losses to the Condominium for any purpose other than repair, replacement or restoration except as provided in Section 9.4 hereof.

10.6. Other Rights of Mortgagees. All Mortgagees or their representatives shall have the right to attend and to speak at meetings of the "Association". All such Mortgagees shall have the right to examine the books and records of the Condominium, to receive the annual report filed by Declarant and to require the submission of annual financial reports and other budgetary information upon written request.

ARTICLE XI

COMPLIANCE AND DEFAULT

11.1. Relief. Each Unit Owner shall be governed by, and shall comply with, all of the terms of the Condominium Instruments and the Condominium Act as any of the same may be amended from time to time. In addition to the remedies provided by the "Act", a default by a Unit Owner shall entitle the "Association", acting through its Board of Directors or through the Managing Agent, to the following relief:

(A) Additional Liability. Each Unit Owner shall be liable for the expense of all maintenance, repair or replacement rendered necessary by his act, neglect or carelessness or the act, neglect or carelessness of any member of his family or his employees, agents or licensees, but only to the extent that such expense is not covered by the proceeds of

use, occupancy or abandonment of any unit or its appurtenances. Nothing contained herein, however, shall be construed as modifying any waiver by any insurance company of its rights or subrogation.

(B) Costs and Attorneys' Fees. In any proceedings arising out of any alleged default by a Unit Owner, the prevailing party shall be entitled to recover the costs of such proceeding and such reasonable Attorneys' fees as may be determined by the court.

(C) No Waiver of Rights. The failure of the "Association", the Board of Directors or of a Unit Owner to enforce any rights, provision, covenant or condition which may be granted by the Condominium Instruments or the Condominium Act shall not constitute a waiver of the right of the "Association", the Board of Directors or the Unit Owner to enforce such right, provision, covenant or condition in the future. All rights, remedies and privileges granted to the "Association", the Board of Directors or any Unit Owner pursuant to any term, provision, covenant or condition of the Condominium Instruments or the "Act" shall be deemed to be cumulative and the exercise of any one or more thereof shall not be deemed to constitute an election of remedies, nor shall it preclude the party exercising the same from exercising such other privileges as may be granted to such party the Condominium Instruments or the "Act" or at law or in equity.

(D) Interest. In the event of a default by any Unit Owner in paying any sum assessed against his Condominium Unit other than for Common Expenses which constitutes for a period in excess of fifteen days, interest at a rate not to exceed the lower of the maximum permissible interest rate which may be charged by a Mortgagee under a Mortgage at such time or eighteen percent per annum may be imposed in the discretion of the Board of Directors on the principal amount unpaid from the date due until paid.

(E) Abating and Enjoining Violations by Unit Owners. The violation of any of the Rules and Regulations adopted by the Board of Directors, the breach of any By-Law contained herein or the breach of any provision of the Declaration of the Condominium Act shall give the Board of Directors the right, in addition to any other rights set forth in these By-Laws:

(1) to enter the Unit in which, or as to which, such violation or breach exists and summarily to abate and remove, at the expense of the defaulting Unit Owner, any structure, thing or condition that may exist therein contrary to the intent and meaning of the provisions hereof, and the Board of Directors shall not hereby be deemed guilty in any manner of trespass; or

(2) to enjoin, abate or remedy by appropriate legal proceedings, either at law or in equity, the continuance of any such breach.

(F) Legal Proceedings. Failure to comply with any of the terms of the Declaration, these By-Laws and the Rules and Regulations shall be grounds for relief, including without limitation, an action to recover any sums due for money damages, injunctive relief, foreclosure of the lien for payment of all assessments, any other relief provided for in these By-Laws or any combination thereof and any other relief afforded by a court of competent jurisdiction, all of which relief may be sought by the "Association", the Board of Directors, the Managing Agent or, if appropriate, by any aggrieved Unit Owner and shall not constitute an election of remedies.

the remaining total of the unpaid installments of such assessments may be accelerated, at the option of the Board of Directors, and the entire balance of the annual assessment may be declared due and payable in full by the service of notice to such effect upon the defaulting Unit Owner and his Mortgagee by the Board of Directors or the Managing Agent.

(H) Remedies Cumulative. A suit to recover a money judgment for unpaid assessments may be maintained without foreclosing or waiving the lien securing the same, and a foreclosure may be maintained notwithstanding the pendency of any suit to recover a money judgment.

11.2. Notices. All notices, demands, bills, statements or other communications under these By-Laws shall be in writing and shall be deemed to have been duly given if delivered personally or sent by United States mail, postage prepaid, or if notification is of a default or lien, sent by registered or certified United States mail, return receipt requested, postage prepaid if to :

(1) a Unit Owner, at the address which the Unit Owner shall designate in writing and file with the Secretary or, if no such address is designated, at the address of the Unit of such Unit Owner,

(2) the "Association", the Board of Directors or to the Managing Agent, at the principal office of the Managing Agent or at such other address as shall be designated by notice in writing to the Unit Owners pursuant to this Section.

If a Unit is owned by more than one person, each such person who so designates an address in writing to the Secretary shall be entitled to receive all notices hereunder.

12.1. By-Laws. These By-Laws may be amended by the Condominium Association at any duly constituted meeting, provided the same is approved by a majority of the owners; provided, however, that until the expiration of the Declarant Control Period, Sections 4.2, 4.9, 5.3, and 12.1 may not be amended without the prior written consent of the Declarant. All Unit Owners shall be bound by any amendment upon the same being duly passed and set forth in an Amended Declaration duly recorded in the Dare County Registry.

12.2. Approval of Mortgages. These By-Laws contain provisions concerning various rights, priorities, remedies and interests of Mortgagees. Such provisions in these By-Laws are to be construed as covenants for the protection of such Mortgagees on which they may rely in making loans secured by Mortgages. Accordingly, no amendment or modifications of these By-Laws impairing or affecting such rights, priorities, remedies or interests of a Mortgagee shall be adopted without the prior written consent of such Mortgagee who shall have thirty days thereafter to file any written objections with the Registered Agent. In the absence of reply by the Mortgagee, consent to any proposed changes will be implied.

IN WITNESS WHEREOF, the Declarant has caused these By-Laws to be signed and sealed by its duly authorized officers, as its act and deed, the day and year first above written.



BY Ronald H. Pack
President

ATTEST

Crystal P. Horsley
Secretary

STATE OF VIRGINIA
ISLE OF WIGHT COUNTY

This the 21st day of December, 1984, Ronald H. Pack personally came before me, Delorah J. Parker, who being by me duly sworn, says that he is the President of Scrimshaw Homeowners Association, Inc., that the seal affixed to the foregoing instrument in writing is the corporate seal of said Company, said writing was signed and sealed by him in the office of said Corporation by its authority duly given him, and the said secretary acknowledged the said writing to be the act and deed of said Corporation.

Delorah J. Parker
Notary Public

commission expires: 10/19/87