

BYLAWS OF BEACON HILL HOMEOWNERS' ASSOCIATION, INC.

ARTICLE 1

GENERAL

Section 1.1. Applicability. These are the Bylaws of BEACON HILL HOMEOWNERS' ASSOCIATION, INC. (the "Association"), which has been organized for the purpose of operating and managing BEACON HILL, a Neighborhood created in accordance with the laws of the Commonwealth of Virginia (the "Neighborhood") upon property located at the southern corner of North Main Street and Vine Street in the City of Harrisonburg, Virginia, which is described in the Declaration of Protective Covenants and Conditions of Beacon Hill Neighborhood.

Section 1.2. Defined Terms. Unless otherwise defined herein, certain initially capitalized words and terms used herein shall have the same meaning as defined in the Declaration of Protective Covenants and Conditions.

Section 1.3. Compliance. All Lot Owners, tenants, employees of Lot Owners or any other person that might use the Neighborhood or any Lot in any manner shall comply with these Bylaws and are subject to the terms and provisions of the Neighborhood Instruments.

Section 1.4. Provisions of Protective Covenants and Conditions and Articles of Incorporation to Control. The provisions of these Bylaws are applicable to the Neighborhood, and the terms and provisions hereof are expressly subject to the terms and provisions contained in the Articles of Incorporation and the Declaration of Protective Covenants and Conditions.

Section 1.5. Office. The office of the Association and the Board of Directors shall be located at the Neighborhood or at such other place as may be designated from time to time by the Board of Directors.

Section 1.6. Voting Each Lot shall have one vote, regardless of the number of owners of the Lot, as defined in the Declaration of Protective Covenants and Conditions of Beacon Hill Neighborhood.

ARTICLE 2: HOMEOWNERS' ASSOCIATION

Section 2.1. Composition and Powers. All of the Lot Owners, acting as a group in accordance with the Declaration of Protective Covenants and Conditions and these Bylaws, shall constitute the Association. The Association shall act merely as an agent for the Lot Owners as a group. The Association shall be responsible for administering the Neighborhood, establishing the means and methods of collecting the contributions to the Common Expenses, arranging for the management of the Neighborhood and performing all of the other acts that may be required to be performed by the Association by the Neighborhood Instruments. Except for the performance of those matters which the Declaration of Protective Covenants and Conditions specifically requires to be authorized by the vote of the Lot Owners, the administration of the foregoing responsibilities shall be performed by the Board of Directors as more particularly set forth in Article 3 hereof. The Association shall have, in addition to those powers listed in the Articles of Incorporation, all of the powers reasonably necessary to implement and effect the rules and objectives set forth in the Neighborhood Instruments. In addition, at its first meeting following the end of the Declarant's Control Period, the board will appoint an Architectural Review Committee and a Landscaping and Grounds Committee, each consisting of not less than three and no more than seven members. The board may also appoint committees responsible for 1) roof, driveway and exterior siding inspection, repair, maintenance and replacement; 2) insurance and real estate taxation; and 3) enforcement of rules and regulations.

Section 2.2. Declarant Control Period. The "Declarant Control Period" shall commence with the settlement of the first Lot to be sold by the Declarant and shall continue until the Declarant settles the sale of Lots (including Additional Land) representing 75 percent or more of the aggregate Lots established in the Declaration of Protective Covenants and Conditions. During the Declarant Control Period the Declarant shall be entitled to designate the officers and the Board of Directors of the Association. Within thirty (30) days after the expiration of the Declarant Control Period, a special meeting of the Beacon Hill Homeowners' Association shall be held. Notice of such meeting shall be given by mailing or personally delivering to each Lot owner's home a printed announcement containing time, date, and place of meeting. At such meeting, the persons designated by the Declarant shall remain as voting members of the Board of Directors, and all of the Lot Owners, including the Declarant if the Declarant owns any Lots, shall elect two additional voting members of the Board of Directors.

Section 2.3. Annual Meetings. During the Declarant Control Period meetings of the Association shall be held at least once a year. The first such meeting shall be held within one (1) year after the date of recordation of the first deed to a Lot owner. After the termination of the Declarant Control Period, and the new Board of Directors is elected by all the Lot Owners, the annual meetings of the Association shall be held during the second month preceding the beginning of each fiscal year of the Association, at a day, time and

place as the Board of Directors may determine. At such annual meetings the Board of Directors shall be elected by a written ballot of the Lot Owners in accordance with the requirements of Section 3.4 of these Bylaws.

Section 2.4. Place of Meetings. Meetings of the Association shall be held at the principal office of the Neighborhood or at such other suitable place convenient to the Lot Owners as may be designated by the Board of Directors.

Section 2.5. Special Meetings. It shall be the duty of the President of the Association to call a special meeting of the Association if so directed by resolution of the Board of Directors or upon a petition signed and presented to the Secretary by Lot Owners entitled to vote not less than twenty-five percent (25%) of the votes allocated to all of the Lot Owners. The notice of any special meeting shall state the time, place and purpose of such meeting. No business shall be transacted at a special meeting except as stated in the notice.

Section 2.6. Notice of Meetings. The Secretary shall, at least twenty-one (21) days in advance of any annual or regularly scheduled meeting, and at least seven (7) days in advance of any other meeting of the Association, deliver notice of the time, place, and purpose of such meeting either personally or by United States mail, to all Lot owners at the address of their respective homes and to such other addresses as any of them may have designated.

Section 2.7. Order of Business. The order of business at all meetings of the Association shall be as follows:

- (1) Roll Call;
- (2) Proof of notice of meeting;
- (c) Reading of Minutes of preceding meeting;
- (d) Reports of officers and Board of Directors;
- (e) Reports of committees;
- (f) Election or appointment of inspectors of election (when so required);
- (g) Election of members of the Board of Directors (when so required);
- (h) Unfinished business; and lastly
- (i) New business.

Section 2.8. Voting. At every meeting of the Association, each Owner shall be entitled to one vote for each Lot owned. When more than one person or entity owns an interest in a lot, they shall vote as a group so that in no event shall more than one vote be cast with respect to any Lot. The vote appertaining to any Lot may be cast pursuant to a proxy or proxies and approved by the Board of Directors. No proxy shall be revocable except by actual notice to the person presiding over the meeting of the Association, by the Lot owner (or, if the Lot is owned by more than one person, by any of such persons), that it be revoked. Any proxy shall be void if it is not dated, if it purports to be revocable

without notice as aforesaid, or if the signatures of any of those executing the proxy has not been witnessed by a person who shall sign his full name and address. The proxy of any person shall be void if not signed by a person having authority, at the time of the execution thereof, to execute deeds on behalf of that person. Any proxy shall terminate automatically after the first meeting held on or after the date of that proxy or any recess or adjournment of that meeting held within thirty (30) days thereafter. Unless greater than a majority vote is otherwise specifically required by the Neighborhood Instruments, the vote of a majority of the aggregate votes cast in person or by proxy at a duly convened meeting at which a quorum is present is required to adopt decisions made at any meeting of the Association. No Owner may vote at any meeting of the Association, or be elected as a director or officer of the Association, if the Association has perfected a lien against his Lot which is not discharged at the time of the meeting.

Section 2.9. Quorum A quorum shall be deemed to be present throughout any meeting of the Association until adjourned if persons entitled to cast more than thirty-three and one-third percent (33-1/3%) of the votes, whether in person or by proxy, are present at the beginning of the meeting. If a quorum is not present at the beginning of the meeting, the meeting shall be adjourned to a time not less than forty-eight (48) hours from the time of adjournment. A quorum shall be deemed to be present throughout such succeeding meeting if persons entitled to cast more than twenty-five percent (25%) of the votes, whether in person or by proxy, are present at the beginning of the meeting.

Section 2.10. Conduct of Meeting. The President shall preside over all meetings of the Association. The Secretary shall keep the minutes of the meeting and record in a minute book all resolutions adopted at the meeting and all other transactions occurring thereat. The President shall appoint a person to act as Parliamentarian at the beginning of each meeting. The most current edition of Roberts Rules of Order shall govern the conduct of all meetings of the Association.

Section 2.11. Ownership of Lots by the Homeowners' Association. The Association may acquire, own and transfer title to a Lot, but the vote appertaining to a Lot owned by the Association may not be cast or counted for any purpose.

ARTICLE 3

BOARD OF DIRECTORS

Section 3.1. Number and Qualification. The affairs of the Neighborhood shall be governed by a Board of Directors. During the Declarant Control Period, the Declarant shall have the right to designate the members of the Board of Directors. The initial Board of Directors shall be composed of three (3) persons, who may but need not be Lot Owners or officers or employees of Lot Owners, or Mortgagees (or designees of Mortgagees) of Lots. After the Declarant Control Period, the Board of Directors shall consist of five (5)

persons. Declarant may add members to the Board before the end of the Declarant Control Period so that each section of the Neighborhood, called a "village," shall have one representative on the Board.

Section 3.2. Powers and Duties. The Board of Directors shall have all of the powers and duties necessary for the administration of the affairs of the Neighborhood and may do all such acts which are not, by the subdivision act or by these Bylaws, directed to be exercised and done by the Association. The Board of Directors shall have the power from time to time to adopt any rules and regulations deemed appropriate by it for the governance of the Neighborhood; provided, however, the rules and regulations shall not be in conflict with the Declaration of Protective Covenants and Conditions or these bylaws.

Section 3.3. Managing Agent. The Declarant may employ a managing agent during the Declarant Control Period. Thereafter, Board of Directors may employ a professional Managing Agent for the Neighborhood at a compensation established by the Board of Directors, to perform such duties and services as the Board of Directors shall authorize. Any contract with a Managing Agent entered into during the Declarant Control Period must provide that such contract may be terminated by either party without cause and without payment of a termination fee or penalty by written notice which (i) states that such contract shall terminate on a date which is more than ninety (90) days after the date of such notice, and (ii) is given not more than sixty (60) days after the termination of the Declarant Control Period. Additionally, any contract with a Managing Agent entered into during the Declarant Control Period shall be for a term not in excess of two (2) years; shall not provide for renewal or extension terms in excess of two (2) years; and shall provide that at the end of any such term, the Board of Directors may terminate any further extension or renewal periods. Any provision of such contract that does not comply with this section shall be deemed to have been modified to conform hereto upon the full execution of the contract.

Section 3.4. Election and Term of Office. At the first meeting of the Association following the end of the Declarant Control Period, the term of office of two (2) members of the Board of Directors shall be fixed at two (2) years, the term of office of the remaining shall be fixed at one (1) year. Thereafter, all terms of office shall be one year. The members of the Board of Directors shall hold office until their respective successors shall have been elected by the Association. Each "village" in the neighborhood must be represented by a board member who is a resident of that village."

Section 3.5. Nominations. Nominations for election as members of the Board of Directors at the annual meeting shall occur only as set forth in this section. In order to be nominated, a nomination petition signed by at least three (3) Lot Owners (other than the nominee) shall be submitted to the Board of Directors at least twenty-one (21) days before the annual meeting. The petition shall include a statement that the Lot owner is

willing to be nominated, and a biographical sketch of the nominee. The Board of Directors shall cause the names of all those who are duly nominated, along with a copy of their biographical sketches, to be mailed or hand delivered to every Lot Owner in the Neighborhood not less than ten (10) days prior to the annual meeting. Nominations from the floor at the annual meeting shall be prohibited unless there are less than two (2) persons nominated to fill each of the designated vacancies on the Board of Directors.

Section 3.6. Removal of Members of Board of Directors. Except during the Declarant Control Period, at any duly called regular or special meeting of the Association, any elected members of the Board of Directors may be removed with or without cause by a majority of the Lot Owners and a successor may then and there be elected to fill the vacancy thus created. However, any Director whose removal has been proposed by the Lot owners shall be given at least ten (10) days' notice of the calling of the meeting and the purpose thereof and shall be given an opportunity to be heard at the meeting.

Section 3.7. Vacancies. Vacancies in the Board of Directors caused by any reason other than the removal of a Director by a vote of the Association shall be filled by a vote of a majority of the remaining Directors at a special meeting of the Board of Directors held for that purpose promptly after the occurrence of any such vacancy. Each person so elected shall be a member of the Board of Directors for the remainder of the term of the member being replaced.

Section 3.8. Organizational Meeting. The date of the first meeting of the members of the Board of Directors elected at the annual meeting of the Association shall be determined by the Board of Directors immediately following the Association meeting and no further notice shall be necessary to the newly elected members of the Board of Directors. Such meeting shall occur within thirty (30) days following the first annual meeting of the Association.

Section 3.9. Regular Meetings. Regular meetings of the Board of Directors may be held at such time and place as shall be determined from time to time by a majority of the Directors, but meetings shall be held at least once every three (3) months during each fiscal or calendar year of the Association. Notice of regular meetings of the Board of Directors shall be given to each Director, by mail or hand delivery, at least three (3) business days prior to the day designated for such meeting.

Section 3.10. Special Meetings. Special meetings of the Board of Directors may be called by the President on three (3) business days' notice to each Director, given by mail or hand delivery. The notice shall state the time, place and purpose of the meeting. Special meetings of the Board of Directors may be called by the President or Secretary in like manner and by like notice upon the written request of at least two (2) Directors.

Section 3.11. Waiver of Notice. Any Director may, at any time, in writing, waive notice of any meeting of the Board of Directors, and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a Director at any meeting of the Board of Directors shall constitute a waiver of notice by him of the time and place of such meeting. If all Directors are present at any meeting of the Board of Directors, no notice shall be required and any business may be transacted at such meeting.

Section 3.12. Conduct of Meetings. The President shall preside over all meetings of the Board of Directors. The Secretary shall keep the minute book of the Board of Directors and shall record all resolutions adopted by the Board of Directors and all transactions and proceedings occurring at such meetings therein. The most current edition of Roberts Rules of order shall govern the conduct of the meetings of the Board of Directors when not in conflict with the Protective Covenants and Conditions or these Bylaws.

Section 3.13. Quorum. A quorum of the Board of Directors shall be deemed to be present throughout any meeting of the Association until adjourned if more than fifty percent (50%) of the Directors entitled to vote are present at the beginning of the meeting. A meeting shall not begin and no action shall be taken unless a quorum is present.

Section 3.14. Action Without Meeting. Any action by the Board of Directors required or permitted to be taken at any meeting may be taken without a meeting if all of the members of the Board of Directors shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board of Directors.

Section 3.15. Compensation. Elected directors' compensation, if any, shall be determined by the members of the Association.

Section 3.16. Fidelity Bonds. The Board of Directors may require adequate fidelity bonds for all Officers and employees of the Neighborhood handling or responsible for Neighborhood funds. The premiums on such bonds shall constitute a Common Expense.

ARTICLE 4

OFFICERS

Section 4.1. Designation. The principal officers of the Neighborhood shall be the President, Vice President, Secretary, and Treasurer, all of whom shall be elected by the Board of Directors. The Board of Directors may appoint an assistant treasurer, an assistant secretary and such other officers as in its judgment may be necessary. The President, but no other officer, shall be required to be a member of the Board of Directors.

Section 4.2. Election of Officers. The officers of the Neighborhood shall be elected annually by the Board of Directors and shall hold office until a successor is elected.

Section 4.3. Removal of Officers. Upon the affirmative vote of a majority of the members of the Board of Directors, any officer may be removed, either with or without cause, and his successor may be elected at any regular meeting of the Board of Directors, or at any special meeting of the Board of Directors.

Section 4.4. President. The President shall be the chief executive of the Neighborhood and a voting member of the Board of Directors. He shall preside at all meetings of the Association and of the Board of Directors. He shall have all of the general powers and duties which are incident to the office of president of a nonstock corporation organized under the Virginia Nonstock Corporation Act, including but not limited to, the power to appoint committees from among the Lot owners from time to time as he may in his discretion decide is appropriate to assist in the conduct of the affairs of the Neighborhood.

Section 4.5. Vice President. The Vice President shall take the place of the President and perform the President's duties whenever the President shall be absent or unable to act. If neither the President nor the Vice President is able to act, the Board of Directors shall appoint a member of the Board of Directors to act in the place of the President on an interim basis. The Vice President shall also perform such other duties as shall from time to time be imposed upon him by the Board of Directors or by the President.

Section 4.6. Secretary. The Secretary shall keep the minutes of all meetings of the Association and of the Board of Directors, and he shall have charge of such books and papers as the Board of Directors may direct, and shall, in general, perform all the duties incident to the office of the secretary of a nonstock corporation organized under the Virginia Nonstock Corporation Act.

Section 4.7. Treasurer. The Treasurer shall have the responsibility for Neighborhood funds and securities and shall be responsible for keeping full and accurate financial records and books of account showing all receipts and disbursements, and for the preparation of all required financial data, and shall be responsible for the deposit of all monies and other valuable effects in the name of the Board of Directors or the Managing Agent, in such depositories as may from time to time be designated by the Board of Directors. The Treasurer will issue to a Lot Owner a statement setting forth the amount of any unpaid assessments against the Lot Owner. The Treasurer shall be bonded, the expense of which shall be borne by the Homeowners Association.

Section 4.8. Agreements, Contracts, Deeds, Checks, etc. All agreements, contracts, deeds, leases, checks and other instruments of the Association shall be executed by two officers of the Association or by such other person as may be designated by the Board of Directors.

Section 4.9. Compensation of Officers. Officer's compensation, if any, shall be determined by the members of the Association.

ARTICLE 5

LIABILITY AND INDEMNIFICATION OF OFFICERS, DIRECTORS AND HOMEOWNERS' ASSOCIATION

Section 5.1. Liability and Indemnification of Officers and Directors. The Association shall indemnify every officer and director of the Association against any and all expenses, including attorneys' fees, reasonably incurred by or imposed upon any officer or director in connection with any action, suit or other proceeding (including settlement of any suit or proceeding if approved by the Board of Directors) to which the officer or director may be made a party by reason of being or having been an officer or director of the Association regardless of whether he is an officer or director at the time such expenses are incurred. The officers and directors of the Association shall not be liable to the Lot Owners for any mistake of judgment, negligence, or otherwise, except for their own individual willful misconduct or bad faith. The officers and directors of the Association shall have no personal liability with respect to any contract or other commitment made by them, in good faith, on behalf of the Association (except to the extent that such officers or directors are Lot Owners) and the Association shall indemnify and forever hold each officer and director free and harmless against any and all liability to others on account of any such contract or commitment. Any right to indemnification provided for herein shall not be exclusive of any other rights to which any officer or director of the Association, or former officer or director of the Association, may be entitled.

Section 5.2. Common or Interested Directors. The Board of Directors shall exercise its powers and perform its duties in good faith and with a view to the interests of the Association and Neighborhood. A contract or other transaction between the Association and one or more of its Directors, or between the Association and any corporation, firm or association (including the Declarant) in which one or more of the Directors of the Association are directors or officers or are pecuniarily or otherwise interested, shall not be void or voidable because such Director or Directors are present at the meeting of the Board of Directors or any committee thereof which authorizes or approves the contract or transaction, or because such Director's or Directors' votes are counted for such purpose, provided that any of the conditions specified in any of the following subparagraphs exist:

- (a) The fact of the common directorate or interest is disclosed or known to the Board of Directors or a majority thereof or noted in the minutes and the Board of Directors authorizes, approves, or ratifies such contract or transaction in good faith by a vote sufficient for the purpose; or
- (b) The fact of the common directorate or interest is disclosed or known to the Lot Owners, or a majority thereof, and they approve or ratify the contract or transaction in good faith by a vote sufficient for the purpose; or
- (c) The cost of any services or goods contracted for is competitive with the cost of like services or goods provided by other reputable companies offering such services or goods in the Harrisonburg, Virginia metropolitan area; or
- (d) The contract or transaction is commercially reasonable for the Neighborhood and to the Association at the time it is authorized, ratified, approved or executed.

A common or interested Director may be counted in determining the presence of a quorum of any meeting of the Board of Directors or committee thereof which authorizes, approves or ratifies any contract or transaction, and may vote thereat to authorize any contract or transaction as if he were not such a common or interested Director or officer.

Section 5.3. Exculpation of the Association. The Association shall not be liable for any failure of water supply or other services to be obtained by the Association or paid for as a Common Expense, or for injury or damage to any person or property caused by the elements or by the Lot Owner of any Lot, or any other person, or resulting from electricity, water, snow or ice which may leak or flow from any portion of the Common Areas or from any pipe, drain, conduit, appliance or equipment. The Association shall not be liable to any Lot Owner for loss or damage, by theft or otherwise, of articles which may be stored upon any of the Common Areas. No offset, diminution or abatement of any assessments, as elsewhere provided herein, shall be claimed or allowed for inconvenience or discomfort arising from the making of repairs or improvements to the Common Areas or from any action taken by the Association to comply with any law or ordinance or with the order or directive of any municipal or other governmental authority.

ARTICLE 6

OPERATION OF THE NEIGHBORHOOD

Section 6.1. Determination of Common Expenses and Assessments Against Lot Owners.

- (a) Fiscal Year. Unless otherwise determined by the Board of Directors, the fiscal year of the Association shall be the calendar year, except that in the initial year of operation of the Association, the fiscal year shall commence with the consummation of the sale of the first Lot and shall end on December 31.

(b) Preparation and Approval of Budget. Each year on or before December 1, the Board of Directors shall adopt a budget for the Association containing an estimate of the total amount which it considers necessary to pay the cost of utility services, maintenance, management, operation, repair and replacement of the Common Areas; and the cost of wages, materials, insurance premiums, services, supplies and other expenses that may be declared to be Common Expenses by these documents, or a resolution of the Board of Directors, and which will be required during the ensuing fiscal year for the administration, operation, maintenance and repair of the Common Areas of the Neighborhood and the rendering to the Lot Owners of all related services. The budget may also include:

(i) The cost of any maintenance, repair and replacement of any Lot if such maintenance, repair or replacement, is reasonably necessary in the discretion of the Board of Directors to protect the Common Areas or to preserve the appearance or value of the Neighborhood or is otherwise in the interest of the general welfare of all Lot Owners. No maintenance, repair or replacement of any Home shall be undertaken without (1) a resolution by the Board of Directors, and (2) prior to reasonable written notice to the Lot Owner of the Home proposed to be maintained, repaired or replaced. Unless the Board of Directors determines otherwise after consideration of all relevant factors, the cost of any maintenance, repair or replacement to a Home shall be assessed against the Lot to which such maintenance, repair or replacement is performed. Once so assessed, a statement for the amount thereof shall be rendered promptly to the Lot Owner at which time the assessment shall become due and payable and shall constitute a continuing lien and obligation of the Lot owner as provided in these Bylaws.

(ii) Any amount necessary to discharge any lien or encumbrance levied against the Neighborhood, or any portion thereof, which may, in the opinion of the Board of Directors, constitute a lien against the Common Areas.

(iii) Any reasonable amounts as the Board of Directors considers necessary to provide a working fund for the Association, a general operating reserve, and reserves for contingencies and replacements. The Board of Directors shall send to each Lot Owner a copy of the budget, in itemized form, which sets forth the amount of the Common Expenses payable by each Lot Owner, at least ten (10) days prior to the beginning of the fiscal year to which the budget applies. The budget shall constitute the basis for determining each Lot Owner's contribution towards the Common Expenses of the Association.

(c) Assessment and Payment of Common Expenses. The total amount of the estimated funds required for the operation of the Association set forth in the budget for the fiscal year adopted by the Board of Directors shall be assessed against each Lot in proportion to its size and style, and shall constitute a lien against each Lot. The total annual Common Expense assessment shall be due and payable when such assessment is made, but installment payments of one-fourth (1/4) of the assessment for such fiscal year may be made quarterly beginning on or before the first day of the first quarter of the fiscal year, and continuing on the first day of each of the succeeding quarters. Each Lot owner shall make such payments to the Board of Directors or the Managing Agent (as

determined by the Board of Directors) without offset, reductions or counterclaims. Within sixty (60) days after the end of each fiscal year, the Board of Directors shall supply to all Lot Owners an 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 may, if the Board of Directors deems it advisable, be credited, according to each Lot's annual assessment, to the installments due in the succeeding months of that or the following fiscal year.

(d) Reserves. The Board of Directors may accumulate 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 reserves allocated thereto. If the reserves are inadequate for any reason, including non-payment of any Lot Owner's assessment, the Board of Directors may at any time levy a further assessment, which shall be assessed against the Lots according to their size and style, and which may be payable in a lump sum or in installments as the Board of Directors may determine. The Board of Directors shall give written notice of any such further assessment to all Lot owners, by mail or hand delivery, stating the amount and reasons therefore, and the further assessment shall, unless otherwise specified in the notice, become effective immediately and payable with the next monthly payment which is due after the delivery or mailing of the notice of further assessment. All Lot owners shall be obligated to pay the adjusted monthly amount or, if the additional assessment is not payable in installments, the full amount of such assessment when due in accordance with this paragraph.

(e) Initial Assessment. When the first Board of Directors, elected or designated pursuant to these Bylaws, takes office, it shall determine the budget for the first fiscal year of the Association. Assessments shall be levied against the Lot owners during this period as provided in paragraph (c) of this section.

(f) Effect of Failure to Prepare or Adopt Budget. The failure or delay of the Board of Directors to prepare or adopt the annual budget for any fiscal year shall not constitute a waiver or release in any manner of a Lot Owner's obligation to pay his allocable share of the Common Expense as herein provided whenever the same shall be determined, and in the absence of any annual budget or adjusted budget, each Lot Owner shall continue to pay the monthly charge established for the previous fiscal period until the new annual or adjusted budget shall have been delivered.

(g) Accounts. All sums collected by the Board of Directors with respect to assessments against the Lot Owners may be commingled into a single fund, but shall be identified and accounted for as to each Lot owner.

(h) Association's Lots. Should the Association be the Owner of a Lot or Lots, any assessment which would be otherwise due and payable to the Association by the owner of such Lot or Lots, reduced by the amount of income which might be derived from the leasing of such Lot or Lots, shall be apportioned and an assessment therefore

levied ratably among the owners of all Lots not owned by the Association based upon the respective size and style of those Lots.

(i) Exempt Property. The following property subject to this Declaration shall be exempt from the assessments created herein; (a) Any property owned by the Association; (b) All properties dedicated to and accepted by a local public authority; (c) All properties owned by a charitable or non-profit organization exempt from taxation by the laws of the State of Virginia. However, no residence, occupied as a dwelling, shall be exempt from these assessments; and (d) Any and all lots owned by Declarant for which a final Certificate of Occupancy has not been issued by the City of Harrisonburg, Virginia, or such other agency having jurisdiction thereof.

Section 6.2. Payment of Common Expenses; Default. All Lot owners shall be obligated to pay the Common Expenses assessed by the Board of Directors pursuant to the provisions of Section 6.1 and any assessment not paid within thirty (30) days after it is due shall be in default. Upon default the entire annual assessment attributable to the defaulting Lot Owner shall immediately become due and payable, unless otherwise determined by the Board of Directors. No Lot Owner shall be liable for the payment of any part of the Common Expenses assessed against his Lot subsequent to a sale, transfer or other conveyance by him of such Lot. Upon payment to the Association of a reasonable fee established from time to time by the Board of Directors, any Lot Owner shall be entitled to a statement from the Treasurer setting forth the amount of the unpaid assessments against the Lot Owner. Notwithstanding any other provision of these Bylaws, the lien for any assessment or other charge levied pursuant to these Bylaws on any Lot shall be subordinate to the rights of a Mortgagee. Any Mortgagee who obtains title to a Lot pursuant to the remedies provided in the Mortgage or other purchaser at the foreclosure of a Mortgage will not be liable for any assessments or other charges accrued prior to the date the mortgagor is divested of title, and the lien for assessments due and owing prior to such divestment shall terminate upon the sale of a Lot at the foreclosure of a mortgage.

Section 6.3. Collection of Assessments. The Board of Directors shall take prompt action to collect any assessments for Common Expenses due from any Lot Owner, which remains unpaid for more than thirty (30) days from the due date for payment thereof. A late charge in an amount established by the Board of Directors from time to time shall be added to any assessment or installment thereof not paid within ten (10) days after the due date thereof.

Section 6.4. Maintenance, Repair, Replacement and Other Common Expenses.

(a) By the Association. The Association shall be responsible for all maintenance, repair and replacement of the Common Areas. The cost of all such maintenance, repairs and replacements made by the Association to the Common Areas shall be a Common Expense unless (i) in the opinion of not less than two-thirds (2/3) of the Board of Directors, such expense was incurred due to the negligence, misuse or

neglect of a Lot Owner, in which event such expense may be charged to the responsible Lot Owner, or (ii) the Lot Owner has agreed, by separate agreement with the Association, to pay for such maintenance, repairs and replacements to Common Areas of a special or unique nature or benefit to the Lot Owner.

(b) By the Lot Owner. Each Lot Owner shall:

- (i) keep his/her Home and its equipment, appliances and appurtenances in good order, condition and repair and in a clean and sanitary condition;
- (ii) be responsible for all damage to any other Lots or to the Common Areas resulting from his negligence, misuse or from failure to make any of the repairs required by this Section;
- (iii) perform his/her responsibility in a manner which shall not unreasonably disturb or interfere with the other Lot Owners;
- (iv) promptly report to the Board of Directors or the Managing Agent any defect or need for repairs for which the Board of Directors is responsible;
- (v) make all repairs and replacements to his/her Home; and
- (vi) perform all cleaning and housekeeping of the interior and exterior of the Home (e.g., windows, roof, shed, porch or deck) in a manner and with such frequency as is consistent with good property management.

(c) Manner of Repair and Replacement. All repairs and replacements shall be of first-class quality and shall comply with all of the building codes applicable in the City of Harrisonburg, Virginia. The method of approving payment vouchers for all repairs and replacements which are the responsibility of the Association shall be determined by the Board of Directors. Common Areas shall be restored or repaired to substantially the same condition as existed prior to the damage, allowing for any changes or improvements necessitated by changes in applicable building codes and changes in the availability, quality, durability, and cost of replacement materials.

(d) Each Owner shall keep all Lots owned by him/her and all improvements therein or thereon in good order and repair and free of debris, including, but not limited to, the seeding, watering and mowing of all lawns, the pruning and cutting of all trees and shrubbery, and the painting or other appropriate external care of all building and other improvements, all in a manner and with such frequency as is consistent with good property management. In the event that an Owner shall fail to maintain the premises and the improvements situated thereon as provided herein, the Association, after notice to the Owner as provided in the Bylaws and approval by two-thirds (2/3) vote of the Board of Directors, shall have the right to enter upon said Lot to correct drainage and to repair, maintain and restore the Lot and the exterior of the building erected thereon. All costs related to such correction, repair and restoration shall become a special assessment upon such Lot.

(e) In the event that a dwelling is destroyed, the Owner of the dwelling within thirty (30) days from said destruction, shall clear away the remaining portion of the dwelling unit and maintain the Lot in a neat and orderly condition. No structure other than a townhouse of at least the same dimensions and architecture as the unity destroyed shall be constructed in the place of the original unit.

Section 6.5. Additions, Alterations, or Improvements by Board of Directors.

Except during the Declarant Control Period, whenever in the judgment of the Board of Directors, the Common Areas shall require additions, alterations or improvements costing in excess of ONE THOUSAND DOLLARS (\$1,000.00) during any period of twelve months, the making of such additions, alterations or improvements shall be approved by a majority of the Lot Owners (except that no Lot owner approval shall be required for additions, alterations or improvements required to comply applicable law or governmental regulation, or to correct any deficiency or defect creating a safety or health hazard to occupants). If a majority of the Lot Owners grant such approval, the Board of Directors shall proceed with such additions, alterations or improvements and shall assess all Lot Owners for the cost thereof as a Common Expense. Any additions, alterations, or improvements costing ONE THOUSAND DOLLARS (\$1,000.00) or less during any period of twelve (12) consecutive months may be made by the Board of Directors without approval of the Lot owners and the cost thereof shall constitute part of the Common Expenses. Notwithstanding the foregoing, if it is determined by a majority of the members of the Board of Directors that such additions, alterations or improvements are exclusively for the benefit of the Lot Owner or Lot Owners requesting the same, such assessments may be made against such requesting Lot owners in such proportion as they jointly approve, or if they are unable to agree thereon, in such proportions as may be determined by the Board of Directors.

Section 6.6. Additions, Alterations or Improvements by Lot Owners. No Lot

Owner shall make any alteration in or to his Lot except as provided in the Declaration of Protective Covenants and Conditions. No Lot Owner shall make any structural addition, alteration or improvement in or to, the exterior of his Home without first obtaining the prior written consent of the Board of Directors, and the approval of the appropriate and necessary authorities of the City of Harrisonburg, Virginia. Unless the foregoing approvals are obtained, no Lot Owner shall install electrical wiring, television or radio Antennae or other objects, machines or air conditioning to Homes which may protrude through the walls, roof or windows of the Home or in any manner alter the appearance of any exterior portion of the Home. The Board of Directors shall be obligated to answer any written request for approval from a Lot Owner for improvement in such Lot owner's Home within thirty (30) days after such request, and failure to do so within the stipulated time shall constitute a DENIAL by the Board of Directors 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 Lot 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; without, however, incurring any liability on the part of the Board of Directors or Association to any government, municipality, contractor, subcontractor or supplier on account of such addition, alteration or improvement, or to any person having

claim for injury to persons or damage to property arising there from. The Lot Owner requesting the improvement shall pay the costs of preparing and filing all applications.

The provisions of this Section 6.6 shall not apply to Lots owned by the Declarant until deeds conveying title to such Lots shall have been recorded. The Declarant shall have the right to make such improvements or alterations without the consent of the Board of Directors and the Board of Directors shall execute any application by the Declarant to any governmental authority which may be required.

Section 6.7. Use of Common Areas. A Lot Owner shall not place or cause to be placed in any of the Common Areas, any obstructions, furniture, packages or objects of any kind. The provisions of this section will not apply to the Declarant.

Section 6.8. Utility Charges. Each Lot Owner shall be responsible for all charges or assessments for utilities, including but not limited to water, gas, electricity and sewer charges supplied to each Lot Owner's Home and separately metered for that Home. The cost of utilities serving the Neighborhood which are not individually metered to each Home shall be a Common Expense.

Section 6.9. Restrictions on Use of Lots and Common Areas; Rules and Regulations.

(a) Use. Homes shall not be used for other than as a residence for individuals living together as a single housekeeping Home, and uses customarily incidental thereto; provided that no Home may be used as a rooming house, group home, commercial foster home, fraternity or sorority house, or any similar type of lodging, care or treatment facility.

(b) Leases. Homes shall not be leased, unless the lease is subject in all respects to the terms and provisions of the Declaration of Protective Covenants and Conditions. The Board may adopt regulations requiring the use of a lease form or addendum form approved by the Board for this purpose. Declarant may lease completed Homes until they are sold and is not limited to the minimum of time Lot Owners may lease a Home.

(c) Declarant's Use. Nothing in these Bylaws shall be construed to prohibit the Declarant from using any Lot owned by Declarant for promotional, marketing, sales, settlement or display purposes or from using any appropriate portion of the Common Areas for such purposes or from leasing any Home for any length of time until Declarant's Lots are sold.

(d) Rules and Regulations.

(1) Nothing shall be done or kept in or upon any Lot or the Common Areas which will increase the rate of insurance for the Neighborhood without the prior written consent of the Board of Directors. No Lot Owner shall permit anything to be done or kept in his Lot or upon the Common Areas which will result in the cancellation of insurance on the Neighborhood or any part thereof or which would be in

violation of any law, regulation or administrative ruling. No waste will be committed by any Lot owner in the Common Areas.

(2) No unlawful use shall be made of the Neighborhood or any part thereof, and all 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 requiring any repair alteration to any portion of the Neighborhood shall be complied with, by and at the sole expense of the Lot Owner or the Board of Directors, whichever shall have the obligation to maintain or repair such portion of the Neighborhood. If the latter, then--the cost of such compliance shall be a Common Expense, unless at least two thirds (2/3) of the Board of Directors determine that an alteration is required to satisfy the needs of the particular Lot Owner, in which event the cost of the alteration may be charged to the Lot Owner.

(3) No Lot Owner shall obstruct any of the Common Areas nor shall any Lot Owner store anything upon any of the Common Areas unless in areas specifically designated for storage by the Board of Directors. Any items reasonably found by the Board of Directors to be existing in violation of the foregoing may be removed without any notice being required. Vehicular parking upon the Common Areas if provided and available may be regulated or assigned by the Board of Directors.

(4) The Common Areas 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 Lots. Nothing shall be kept upon or at any Common Element or Lot which may be or become an annoyance to the Neighborhood or the other Lot Owners, with the exception of materials and tools and vehicles used to complete work on behalf of the Declarant.

(5) Nothing shall be done in any Lot or in or on the Common Areas which might impair the structural integrity, or change the structure or external appearance, of any part of any Home without the prior written consent of the Board of Directors.

(6) No motorized vehicles, including, without limitation, motorcycles and mopeds, may be driven or used upon the Common Areas (except for paved roads, parking areas and driveways) without the prior written consent of the Board of Directors.

(7) No noxious or offensive trade or activity shall be carried on within the Neighborhood or within any Lot, nor shall anything be done thereon or therein which may be or become an annoyance or nuisance to the neighborhood or the other Lot Owners. Declarant, during construction, is not bound by this provision

(8) In units with a garage, the garage shall not be converted into or used exclusively for living space, storage space, or for any other purpose than the housing of vehicles.

(9) No Lot shall be sold to or occupied by more than three (3) unrelated persons.

Section 6.91 Governing Conditions

(1.) Personal Property

To promote an attractive neighborhood in which prospective buyers would like to live, all personal property, such as barbecue grills, lawn chairs, bicycles, patio tables, etc., must be kept on the deck in the rear of the house.

Nothing--neither device nor ornament--may be hung, attached--either temporarily or permanently--or displayed, nor may signs, awnings, clothes lines, canopies, shutters, antennae, lights, electrical outlets, basketball backboards, rims and nets, nor satellite dishes nor any other device nor ornament be affixed to or placed upon any lot or dwelling including the exterior walls, doors, fences or roof without the prior written approval of the Board of Directors.

Exceptions: This provision does not apply to seasonal holiday decorations, provided they are put up and taken down in a timely manner. Satellite dishes less than 18" in diameter are permitted if placement does not, in the sole opinion and discretion of the Homeowners Association Board, detract from the appearance of the property.

(2.) Decorative Items

While sales are ongoing, the exterior appearance of homes may not be altered, including, but not limited to, colors and decorative features. The color of the paint on the exterior of every building on each Lot shall be the same as the original color.

(3.) Flowers/Landscape Plants

Each owner shall keep all lots owned by him/her and all improvements in good order and repair, and free of debris, including, but not limited to, the seeding, watering and mowing of all lawns, the pruning and cutting of all trees and shrubbery, and other appropriate external care of the land comprising the owner's lot.

(4.) Other Items

The following items will be strictly prohibited in the community: a. Laundry may not be hung outside (including, without limitation, swim suits, towels and rugs). b. No Lot shall be used or maintained as a dumping ground or storage facility for trash or rubbish.

(5.) Exterior Alterations

No alterations, additions, landscaping, fences, hedges, walls, patios, decks, etc., may be made to the exterior of the building, nor removed without the prior written approval of the board of directors. Storm doors may be added at the resident's expense using only the design and color approved by the Board. Specific information

about approved storm doors may be obtained through the Sales Office. Each owner shall keep all structures on lots owned by him/her in good order and repair, including, but not limited to, the painting and other appropriate external care of all buildings and other improvements, all in a manner and with such frequency as is consistent with good property management.

(6.) Windows and Window Coverings

All window coverings, whether draperies, blinds (vertical or horizontal) or valances must be white, off-white, light beige or light gray on the exterior side.

(7.) Signs

Nothing may be hung or displayed from inside the windows except one professionally prepared 18 " x 24" "For Sale" sign or two security system decals, which shall be limited to no more than two inches on a side. No real estate signs are permitted on any Common Element. No "For Rent" sign of any size is permitted on any Lot or Common Element.

(8.) Animals

Number and Type: Only dogs, cats and common household pets kept in cages (such as birds or hamsters) may be kept in any one home, provided they are not bred or maintained for commercial purposes, and are not in unusual numbers.

Leash: All animals, when not on the owner's lot, shall be maintained on a leash not more than eight (8) feet in length. When outside, all animals shall be supervised by a resident or pet sitter at all times, even when on the owner's lot.

Pet Litter: PET LITTER ON ANY BUT THE OWNER'S LOT MUST BE CLEANED UP IMMEDIATELY.

Control: No pet shall be tethered outside. No pet shall be kept or left outside the home unattended.

Fines: Pet owners may be fined for violation of these policies at the rate of \$10.00 for the first offense and \$25.00 for each additional offense. If any pet becomes a nuisance in the opinion of the Board of Directors, the pet may be ejected from the community at the discretion of the Board of Directors.

(9.) Parking/Vehicles

Types: No mobile homes, boats, motor homes, busses, trailers, trucks larger than a 3/4 ton pickup, or other vehicles larger than a 3/4 ton pickup may be parked on any street or driveway or in any area other than the parking lots constructed by the builder. Recreational vehicles will be permitted to park in front of the owner's home for no more than twelve (12) hours to allow for loading and unloading. Such vehicles must not exceed twenty (20) feet in length and must not block normal access of other residents. Commercial moving vans, when conducting contract business, and commercial trucks when in the area to perform service or repair work are an authorized exception.

Beacon Hill's managers have arranged special prices for storing boats, campers and trailers with several storage facilities in the area . Information is available through the management office.

Places: Ownership of each Lot shall entitle the Owner thereof to the use of not more than two (2) vehicular parking spaces which shall be as near and convenient to said Lot as reasonably possible, together with the right of ingress and egress upon said Parking Area. If the occupants of a home own more than two vehicles, the additional vehicles may not be parked in front of any other home. Additional vehicles must be parked in designated areas.

Condition: Inoperable vehicles (with flat tires, expired license tags, etc.) and vehicles which cannot be identified as belonging to a resident or a resident's guest which are parked for more than 48 consecutive hours may be towed off the premises at the vehicle owner's expense. No repair work is permitted on vehicles in parking lots or Common Areas except for short-term emergency work (flat tire, battery charge, etc.).

Operation: No vehicle shall be parked in any manner which blocks any street or driveway, or the ingress/egress to any parking area. Excessive speed, and parking or driving on the lawn areas is prohibited.

(10.) Trash Collection

Trash containers should not be set out prior to 5:00 p.m. the day preceding collection, and the containers must be picked up and put away by 9:00 p.m. the day of collection. (Ask a neighbor to take care of your container if you're going to be away.) Only trash containers with lids securely tied or heavy duty trash bags are permitted for trash disposal.

All trash for collection must be set out at the point designated by the trash collection agency. No refuse or any container for same shall be placed or stored in front of any home, except on the date of garbage pickup. Please keep our neighborhood attractive by picking up trash spilled from the containers.

(11.) Soliciation and Garage Sales

Solicitation is not authorized within the community. In a like manner and due to restricted parking availability, garage sales and tag sales are specifically prohibited, unless approved by the Board of Directors as a planned community activity.

(12.) Utilities

Residents are responsible for maintenance and payment of separately metered gas, water, electric, cable television, telephone, and for calling to initiate service on the date of possession.

(13.) Used Home Sales

Any owner who sells his or her home is responsible for:

1. Notifying the Association of potential ownership changes when a closing is established.
2. Making certain all Association dues are current.
3. Making certain new owners receive the association documents.

(14.) Amendments

These rules and regulations may be changed from time to time and at any time by a 2/3 vote of Lot Owners or by Declarant during the Declarant Control Period. Changes must be conveyed in writing to all Lot owners at the time of the change.

ARTICLE 7

INSURANCE

Section 7.1. Authority to Purchase.

- (a) Except as otherwise provided in Section 7.5, all insurance policies relating to the Neighborhood shall be purchased by or on behalf of the Association. Neither the Association, any officer or director, a Managing Agent, nor the Declarant shall be liable for failure to obtain any coverage's required by this Article to be obtained by or on behalf of the Association if such failure is due to the unavailability of such coverage from reputable insurance companies, or if such coverage are available only at demonstrably unreasonable cost. The Secretary shall promptly furnish to each Lot Owner

written notice of the procurement, subsequent changes in, and the termination of all insurance coverage obtained on behalf of the Association.

(b) Each policy purchased by or on behalf of the Association shall provide, to the extent reasonably available at reasonable rates, that:

(1) The insurer waives any right of subrogation against the Declarant, the Association, the officers and directors, Managing Agent, the Lot Owners and Mortgagees, and their respective agents, employees and invitees;

(2) The policy shall not be canceled, invalidated or suspended due to the conduct of any officer or director, Lot owner, Managing Agent, or any invitee, agent, officer, or employee of any of the foregoing without a prior demand in writing to the Board of Directors or the Managing Agent (whichever is applicable) that the defect be cured, followed by failure to cure the defect within sixty (60) days after such demand; and

(3) The policy shall not be canceled or substantially modified for any reason (including nonpayment of premium) without at least sixty (60) 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 shall be protected by all policies obtained by or behalf of the Association as a Lot Owner as long as it owns any Lot.

(d) All policies of insurance obtained by Lot owners or by or on behalf of the Association shall be written by companies licensed to do business in the Commonwealth of Virginia, and assigned an A rating or better by Best's Insurance Reports.

(e) All policies of insurance obtained by or on behalf of the Association shall provide that they are payable to the Insurance Trustee (as defined below).

Section 7.2. Common Element Physical Damage Insurance.

(a) To insure common areas, the Board of Directors shall, if necessary, obtain and maintain a blanket, "all-risk" form policy of fire insurance with extended coverage, vandalism, malicious mischief, windstorm, debris removal, cost of demolition and water damage endorsements, insuring all of the utility systems, if any, other than improvements such as curbs, gutters, and other items not normally insured, if any. Such insurance shall cover the interests of the Association, the Board of Directors and all Lot 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 Sections 7.6 and 7.7 of this Article), and shall be in an amount that would provide for one hundred percent (100%) of the then current replacement cost of the insured portions, if any, of the Common Areas (exclusive of land, excavations, foundations and other items normally excluded from such coverage), without deduction for depreciation. Such amount shall be determined annually by the Board of Directors with the assistance of the Managing Agent, the insurance company affording such coverage, and (if the Board so resolves) a qualified appraiser of real estate.

(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 section 8.5 of these Bylaws not to do so, and, in such event, that the insurer shall pay on the basis of the agreed amount endorsement;

(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 Lot Owner, occupant, or other person if such act or neglect is not within the control of the insured, nor by any failure of the insured or any other person to comply with any warranty or condition concerning any portion of the Neighborhood not controlled by the insured); (ii) "contingent liability from operation of building laws or codes"; (iii) "increased cost of construction" or "Neighborhood replacement cost"; and (iv) "agreed amount" or elimination of coinsurance clause;

(3) That any "no other insurance" clause excludes individual Lot Owners' policies from its operation so that the physical damage policy purchased on behalf of the Association shall be deemed primary coverage and any individual Lot Owners' policies shall be deemed excess coverage, and in no event shall the insurance coverage obtained and maintained on behalf of the Association hereunder be brought into contribution with insurance purchased by individual Lot Owners of their Mortgagees unless otherwise required by law; and

(4) That a duplicate original of such policy, all renewals thereof, and any subpolicies or certificates and endorsements issued thereunder, together with proof of payment of premiums, shall be delivered by the insurer to any Mortgagee whose request therefore is received by the insurer at least thirty (30) days prior to expiration of the then current policy.

Section 7.3. Liability Insurance. The Board of Directors shall obtain and maintain comprehensive general liability insurance (including without limitation coverage of all officers and directors against libel, slander, false arrest, invasion of privacy, and errors and omissions) and property damage insurance in such limits as the Board may from time to time determine, insuring the Association, each officer and director, the Managing Agent, each Lot Owner, each Mortgagee, and the Declarant against any liability to the public or members of their households arising out of or incident to the ownership or use of the Common Areas. Such insurance shall be issued on a comprehensive liability basis and shall contain: (i) a cross liability endorsement under which the rights of a named insured shall not be prejudiced with respect to his action against another named insured; (ii) hired and nonowned vehicle coverage; (iii) host liquor liability coverage with respect to events sponsored by the Association; (iv) deletion of the normal products exclusion with respect to events sponsored by the Association; and (v) a "severability of interest" endorsement which shall preclude the insurer from denying liability to a Lot Owner because of negligent acts or omissions of the Association, any officer(s), or any other Lot Owner(s). The Board of Directors shall review such limits once a year, but in no event shall such insurance be less than a combined single limit of One Million Dollars

(\$1,000,000) 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 (\$3,000,000).

Section 7.4. Other Insurance. The Board of Directors may, in its discretion, obtain and maintain:

(a) Adequate fidelity coverage to protect against dishonest acts on the part of officers, agents and employees of the Association and all others who handle or are responsible for handling funds of the Association. The fidelity bonds shall: (i) name the Association as an obligee; (ii) be written in an amount not less than one-half (1/2) of the total annual assessments for Common Expenses for the then current fiscal year; provided, however, the aggregate amount of the bonds shall not be less than the estimated maximum of funds, including reserve funds, in the custody of the Association or the Managing Agent at any given time during the term of the bond, or a sum equal to three (3) months' aggregate assessment on all Lots plus reserve funds; and (iii) contain waivers of any defense based upon the exclusion of persons who serve without compensation from any definition of "employee" or similar expression;

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

(c) Such other insurance as the Board of Directors may determine is appropriate or as may be required from time to time by resolutions of the Association.

Section 7.5. Home Physical Damage Insurance.

(a) Each Lot Owner shall, at his own expense, obtain and maintain in full force and effect a Homeowner's policy insuring such Home and any improvements to the Home in an amount that would provide for one hundred percent (100%) of the then current replacement cost thereof, without deduction for depreciation, including insurance coverage for his personal liability. All policies obtained by Lot Owners individually shall contain waivers of subrogation if permitted by the insuring company without additional premium.

(b) Such policy shall also provide:

(1) The following endorsements (or equivalent): (i) "no control" (to the effect that coverage shall not be prejudiced by any act or neglect of any person if such act or neglect is not within the control of the insured, nor by any failure of the insured or any other person to comply with any warranty or condition concerning any portion of the Neighborhood not controlled by the insured); (ii) "contingent liability from operation of building laws or codes"; (iii) "increased cost of construction" or "replacement cost"; and (iv) "agreed amount" or elimination of coinsurance clause;

(2) That any "no other insurance" clause excludes policies obtained by or on behalf of the Association from its operation so that the physical damage insurance on Homes obtained by Lot Owners shall be deemed primary coverage with respect to the Homes and any policy obtained by or on behalf of the Association shall be

deemed excess coverage, and in no event shall the insurance coverage obtained by any Lot Owner be brought into contribution with any policy obtained by or on behalf of the Association unless otherwise required by law; and

(3) That a duplicate original of each policy, all renewals thereof, and any subpolicies, certificates and endorsements issued thereunder, together with proof of payment of premiums, shall be delivered by the insurer to the Association and any mortgagee whose request therefore is received by the insurer at least thirty (30) days prior to expiration of the then current policy.

(c) In the event any Lot Owner shall fail to provide a policy of hazard insurance with respect to a Home as required in this Section, then the Board of Directors may, but shall not be obligated to, obtain such a policy with respect to the Home, on behalf of such Lot owner, and all expenses incurred by the Board of Directors in connection with obtaining such policy shall be repaid by such Lot owner to the Association promptly upon demand by the Board of Directors. Any expenses incurred by the Association pursuant to this Section shall be charged to the responsible Lot Owner, and such expenses shall be secured by the lien for payment of Common Expenses as provided in these Bylaws.

Section 7.6. Insurance Trustee. All physical damage insurance policies purchased by or on behalf of the Association shall be for the benefit of the Association, the Lot owners, and their Mortgagees, as their respective 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 8 of these Bylaws. The sole duty of the Insurance Trustee shall be to receive such proceeds as are paid to it and to hold the same in trust for the purposes stated in Article 8 of these Bylaws, for the benefit of the insureds and their beneficiaries thereunder.

Section 7.7. Board of Directors as Agent. The Board of Directors as Insurance Trustee is irrevocably constituted as agent for the Association, each Lot Owner, each Mortgagee, other named insureds and their beneficiaries, and any other holder of a lien or other interest in the Neighborhood, to adjust and settle all claims arising under insurance policies purchased by the Board of Directors and deliver releases upon the payment of claims. Nothing in this Section shall supersede the rights of any construction lender with a lien on the Neighborhood.

ARTICLE 8

REPAIR AND RECONSTRUCTION AFTER FIRE OR OTHER CASUALTY

Section 8.1. Encroachments. If encroachments upon or in favor of Lots are created as a result of such reconstruction, no such encroachment shall give rise to a claim or basis for any action for removal thereof by the Lot owner upon whose property such encroachment results.

and any amendments thereof. Default by a Lot Owner shall entitle the Association, acting through its Board of Directors or through the Managing Agent, to the following relief:

(a) Legal Proceedings. Failure to comply with any of the foregoing items set out in this section shall be grounds for relief which may include, 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 Bylaws 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 Lot owner.

(b) Additional Liability. Each Lot owner shall be liable for the expense of all maintenance, repair or replacement to the extent rendered necessary by his act, neglect or carelessness or the act, neglect or carelessness of any member of his family or employees, agents, licensees, invitees or lessees, but only to the extent that such expense is not covered by the proceeds of insurance carried by the Board of Directors. Such liability shall include any increase in fire insurance rates occasioned by use, misuse, occupancy or abandonment of any Lot. Nothing contained herein, however, shall be construed as modifying any waiver by any insurance company of its rights of subrogation.

(c) Costs and Attorneys' Fees. In any proceeding arising out of any alleged default by a Lot Owner, the prevailing party shall be entitled to recover the costs incurred due to the proceeding, and such reasonable attorneys' fees as may be determined by the court or other appropriate forum in which such proceeding is instituted.

(d) No Waiver of Rights. The failure of the Association, the Board of Directors, or of a Lot owner to enforce any right, provision, covenant, or condition which may be granted by the Declaration of Protective Covenants and Conditions or these Bylaws shall not constitute a waiver of the right of the Association, the Board of Directors, or the Lot 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 Lot Owner pursuant to any term, provision, covenant or condition of the Protective Covenants and Conditions, these Bylaws or the Rules and Regulations 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 privileges or rights as may be granted to such party by the Declaration of Protective Covenants and Conditions, these Bylaws or the Rules and Regulations, or at law or in equity.

(e) Interest and Late Fees. If any Lot Owner defaults in the payment of any Common Expenses or other sum assessed against such Lot owner or Lot and the default continues for a period in excess of thirty (30) days, such Lot owner shall pay interest on the amounts due and in default at a rate not to exceed the usury rate provided by the applicable statutes of the Commonwealth of Virginia from the due date thereof until paid. In addition, the Common Expenses or other sums due shall be subject to a late fee equal to five percent (5%) of the amount past due if not paid within ten (10) days after the due date thereof.

(f) Abatement and Enjoinment of Violations by Lot Owners. The violation of the Governing Conditions or the breach of any provision of these Bylaws, the Declaration of Protective Covenants and Conditions or any of the Neighborhood Instruments shall give the Board of Directors the right, in addition to any other rights set forth in these Bylaws: (1) to enter, except by force or breach of the peace, the Home in which, or as to which, such violation or breach exists and summarily to abate and remove, at the expense of the defaulting Lot 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 thereby 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.

Section 10.2. Lien for Contributions. Any sum assessed by the Association for the share of the Common Expenses chargeable to any Lot and remaining unpaid for a period of thirty (30) days or longer after the Association has delivered written notice of the amount of such assessment shall constitute a lien on such Lot and shall be enforced pursuant to the provisions of these bylaws.

ARTICLE 11

MISCELLANEOUS

Section 11.1. Notices. All notices, demands, bills, statements or other communications under these Bylaws shall be in writing and shall be deemed to have been duly given if delivered personally or if sent by registered or certified mail, return receipt requested, first-class postage prepaid:

(a) If to a Lot Owner, at the address which the Lot owner shall designate in writing and file with the Secretary of the Association, or if no such address is designated, at the address of the Home of such Lot Owner; or

(b) If to the Association, the Board of Directors, or the Managing Agent, at the principal office of the Managing Agent if there be one and if there is none, at the residence of the President of the Homeowners Association and the members of the Board of Directors or at such other address as shall be designated by the notice in writing to the Lot owners pursuant to this section.

Section 11.2. Invalidity. The invalidity of any part of these Bylaws shall not impair or affect in any manner the validity, enforceability or effect of the balance of these Bylaws.

Section 11.3. Captions. The captions herein are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope of these Bylaws, or the intent of any provision thereof.

Section 11.4. Gender. The use of the masculine gender in these Bylaws shall be deemed to include the feminine and neuter genders, and vice versa and the use of the singular shall be deemed to include the plural, and vice versa, whenever the context so requires.

Section 11.5. Declarant's Rights. No statement in these bylaws shall delay, cause added expense, limit or hinder Declarant's completing Beacon Hill, a Neighborhood.

Section 11.6. Governing Conditions. Owners, by purchasing a Lot in the Neighborhood, agree to abide by the Beacon Hill Neighborhood Homeowners Association Documents, which shall be enforced by the members of the Board of Directors, who may exercise the powers of enforcement itemized heretofore. The Rules and Regulations may be amended by a majority vote of the members of the Board of Directors, or, the Board of Directors may require at its discretion approval of any amendment by the same process as is required for amendments to the By-laws.

ARTICLE 12

AMENDMENTS TO BYLAWS

Section 12.1. Amendments.

(a) Except as otherwise provided in this section, these Bylaws may be modified or amended:

(1) By a vote of the Lot owners representing at least two-thirds (2/3) of the votes allocated to all of the Owners of Lots in the Neighborhood at any regular or special meeting, provided that notice of the proposed amendment shall have been given to each Lot Owner at least twenty-one (21) days in advance of such meeting; or

(2) Pursuant to a written instrument duly executed by the Lot owners representing at least two-thirds (2/3) of the votes allocated to all of the owners of Lots in the Neighborhood.

(b) During the Declarant Control Period these Bylaws may be modified or amended by the Declarant without any approval of the Lot owners being required to (i) make technical amendments which do not substantially alter the enjoyment by Lot Owners, and (ii) comply with the requirements and guidelines, as modified from time to time, of the Federal Home Loan Mortgage Association, the Federal National Mortgage Association, or the Veterans' Administration, including, without limitation, insurance and maintenance requirements with respect to the Neighborhood.

Amendments to these Bylaws resulting solely from or required in connection with the

expansion of the Neighborhood may be made by the Declarant as set forth in the Protective Covenants and Conditions, without any approval of the Lot Owners being required. Each Lot Owner shall be given written notice of all amendments made pursuant to this subsection within thirty (30) days after the date such amendment is recorded.

Section 12.2. Recording. A modification or amendment of these Bylaws shall become effective only if such modification or amendment is recorded in the Clerk's office of the Circuit Court of the City of Harrisonburg, Virginia. A modification or amendment once adopted and recorded shall then constitute part of the official Bylaws of the Neighborhood, and all Lot Owners shall be bound to abide by such modification or amendment.

Section 12.3. Conflicts. No modification or amendment of these Bylaws may be adopted which shall be inconsistent with the provisions of the laws of the State of Virginia.. In the event of a conflict with the Protective Covenants and Conditions of Beacon Hill Neighborhood, the Protective Covenants shall prevail.

Section 12.4. Restrictions on Amendments.

(a) Until the expiration of the Declarant Control Period, the following sections of these Bylaws may not be amended without the consent in writing of the Declarant: (i) Section 2.2, (ii) Section 2.8, (iii) Section 3.1, and (iv) Section 12.4 of this Article. No such amendment shall increase or decrease the Declarant Control Period.

(b) No amendment that would change Lot boundaries or amendment to the basis for sharing Common Expenses and other apportionment of assessments which may be levied by the Association in accordance with the provisions hereof, or amendment to the basis of ownership of any reserve funds (other than such amendments resulting solely from the expansion of the Neighborhood, which may be made by the Declarant or without any other consent required) shall be made without the prior written consent of all the Lot Owners.

(c) During the Declarant Control Period, no alteration, amendment or modification of the rights and privileges granted and reserved hereunder in favor of the Declarant shall be made without the prior written consent of the Declarant.

DECLARANT: BEACON HILL OF HARRISONBURG, LLC,
a Virginia limited liability company

By: BEACON HILL OF HARRISONBURG, LLC,
a Virginia limited liability company

By: _____