

BYLAWS

OF

PRESTON TRACE-PHASE II HOMEOWNERS ASSOCIATION, INC.

ARTICLE I

NAME AND LOCATION

The name of the corporation is Preston Trace-Phase II Homeowners Association, Inc. hereinafter referred to as the "Association." The principal office of the corporation shall be located at Cary, Wake County, North Carolina, but meetings of Members and directors may be held at such places within the State of North Carolina, County of Wake, as may be designated by the Board of Directors.

ARTICLE II

DEFINITIONS

Section 1. "Association" shall mean and refer to Preston Trace-Phase II Homeowners Association, Inc. its successors and assigns.

Section 2. "Property" shall mean and refer to that certain real property described in the Declaration of Covenants, Conditions and Restrictions for Preston Trace-Phase II, and such additions thereto as may be brought within the jurisdiction of the Association.

Section 3. "Common Area" shall mean all real property owned by the Association for the common use and enjoyment of the Owners.

Section 4. "Lot" shall mean and refer to any numbered or lettered plot of land shown upon any recorded subdivision map of the Property with the exception of the Common Area and dedicated streets and shall include the dwelling constructed thereon.

Section 5. "Owner" shall mean and refer to the record Owner, whether one or more persons or entities, of a fee simple title to any Lot which is a part of the Property, but excluding those having such interest as security for the performance of an obligation.

Section 6. "Declarant" shall mean and refer to Prestonwood, Inc., its successors and assigns, if Declarant shall expressly

assign its rights as developer hereunder to such successor or assign.

Section 7. "Declaration" shall mean and refer to any Declaration of Covenants, Conditions and Restrictions applicable to the Property recorded in the Office of the Register of Deeds of Wake County, North Carolina.

Section 8. "Member" shall mean and refer to those persons or entities entitled to membership with voting rights as provided in the Declaration and in Article III of these Bylaws.

ARTICLE III

MEMBERSHIP AND PROPERTY RIGHTS

Section 1. Membership. Every Owner of a Lot which is subject to a lien for assessments shall be a Member of the Association. Membership shall be appurtenant to and may not be separated from ownership of any Lot subject to assessment. The voting rights of the Members shall be as provided by the Declaration. When more than one person holds an interest in any Lot, all such persons shall be Members. The vote or votes for such Lot shall be exercised as they among themselves determine, but in no event shall more than one (1) vote be cast with respect to any Lot. The President of the Association shall have the authority to require that such multiple Owners of a Lot file a Certificate with the Secretary of the Association, signed by all of the Owners, designating the person entitled to cast the vote for such Lot. Such Certificate shall be valid until revoked by a subsequent Certificate. If such Certificate is not filed when required, the vote of such Owners shall not be considered in determining the requirements for a quorum or for any other purpose.

Section 2. Property Rights. Each Member shall be entitled to the use and enjoyment of the facilities as provided in the Declaration. Any Owner may delegate his right of enjoyment to the Common Area and facilities to the members of his family, to his tenants, or to contract purchasers who reside on the Property.

ARTICLE IV

MEETINGS OF MEMBERS

Section 1. Annual Meetings. The first annual meeting of the Members shall be held within one year from the date of incorporation of the Association, and each subsequent regular annual meeting of the Members shall be held in the same month of each year thereafter at such time and place as the Board of Directors may prescribe.

Section 2. Special Meetings. Special meetings of the Members may be called at any time by the president or by the Board of Directors, or upon written request of the Members who are entitled to cast one-fourth (1/4) of all the votes of the Class A membership.

Section 3. Notice of Meetings. Written notice of each meeting of the Members shall be given by, or at the direction of, the secretary or person authorized to call the meeting, by mailing a copy of such notice, postage prepaid, at least fifteen (15) days before such meeting to each Member entitled to vote thereat, addressed to the Member's address last appearing on the books of the Association, or supplied by such Member to the Association for the purpose of notice. Such notice shall specify the place, day and hour of the meeting, and, in the case of a special meeting, the purpose of the meeting. Waiver by a Member in writing of the notice required herein, signed by him before or after such meeting, shall be equivalent to the giving of such notice.

Section 4. Quorum. The presence at the meeting of Members entitled to cast, or of proxies entitled to cast, one-tenth (1/10) of the votes of each class of membership shall constitute a quorum for any action except as otherwise provided in the Articles of Incorporation, the Declaration, or these Bylaws. If, however, such quorum shall not be present or represented at any meeting, the Members entitled to vote thereat shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum as aforesaid shall be present or be represented.

Section 5. Proxies. At all meetings of Members, each Member may vote in person or by proxy. All proxies shall be in writing and filed with the secretary. Every proxy shall be revocable and shall automatically cease upon conveyance by the Member of his Lot.

ARTICLE V

BOARD OF DIRECTORS: SELECTION: TERM OF OFFICE

Section 1. Number. The affairs of this Association shall be managed by a Board of Directors who need not be Members of the Association. The Board of Directors shall consist of three (3) persons.

Section 2. Term of Office. At the first annual meeting the Members shall select two (2) directors for a term of two (2) years and one (1) director for a term of one (1) year; and at each annual meeting thereafter the Members shall elect directors for a term of two (2) years.

Section 3. Removal. Any director may be removed from the Board, with or without cause, by a majority vote of the Members of the Association. In the event of death, resignation or removal of a director, his successor shall be selected by the remaining members of the Board, and shall serve for the unexpired term of his predecessor.

Section 4. Compensation. No director shall receive compensation for any service he may render to the Association. However, any director may be reimbursed for his actual expenses incurred in the performance of his duties.

Section 5. Action Taken Without a Meeting. The directors shall have the right to take any action in the absence of a meeting which they could take at a meeting by obtaining the written approval of all the directors. Any action so approved shall have the same effect as though taken at a meeting of the directors.

ARTICLE VI

NOMINATION AND ELECTION OF DIRECTORS

Section 1. Nomination. Nomination for election to the Board of Directors shall be made by a Nominating Committee. Nominations may also be made from the floor at the annual meeting. The Nominating Committee shall consist of a Chairman, who shall be a member of the Board of Directors, and two or more Members of the Association. The Nominating Committee shall be appointed by the Board of Directors prior to each annual meeting to serve until the close of the next annual meeting and such appointment shall be announced at each annual meeting. The Nominating Committee shall make as many nominations for election to the Board of Directors as it shall in its discretion determine, but not less than the number of vacancies that are to be filled. Such nominations may be made from among Members or non-members.

Section 2. Election. Election to the Board of Directors shall be by secret written ballot. At such election the Members or their proxies may cast, in respect to each vacancy, as many votes as they are entitled to exercise under the provisions of the Declaration. The persons receiving the largest number of votes shall be elected. Cumulative voting is not permitted.

ARTICLE VII

MEETINGS OF DIRECTORS

Section 1. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time and place and with such

notice as shall be determined by resolution of a majority of the Directors.

Section 2. Special Meetings. Special meetings of the Board of Directors shall be held when called by the president of the Association, or by any two directors, after not less than three (3) days' notice to each director.

Section 3. Quorum. A majority of the number of directors shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board.

ARTICLE VIII

POWERS AND DUTIES OF THE BOARD OF DIRECTORS

Section 1. Powers. In addition to the powers set forth in Article VI, Section 1 of the Declaration, the Board of Directors shall have power to:

(a) adopt and publish rules and regulations governing the use of the Common Area and facilities, and the personal conduct of the Members, and their guests thereon, and to establish penalties for the infraction thereof;

(b) suspend the voting rights of a Member during any period in which such Member shall be in default in the payment of any assessment, dues or charge levied by the Association. Such right may also be suspended after notice and hearing, for a period not to exceed sixty (60) days, for infraction of published rules and regulations;

(c) contract for the benefit of the Property and to delegate to such contractors all of the powers and duties of the Association, except those which may be required by the Declaration to have approval of the Board of Directors or membership of the Association. The undertakings and contracts authorized by the initial Board of Directors (including contracts for the management of Preston Trace-Phase II) shall be binding upon the Association in the same manner as though such undertakings and contracts had been authorized by any Board of Directors duly elected by the membership after the recording of this Declaration, so long as such undertakings and contracts are within the scope of the powers and duties which may be exercised by the Board of Directors of the Association in accordance with the Declaration, the Articles of Incorporation and these Bylaws.

(d) if the Board of Directors, in its sole discretion, chooses to so act, act as the homeowners association for other planned unit developments, pursuant to the creating documents for such developments;

(e) acquire (by gift, purchase or otherwise), own, hold, improve, build upon, operate, maintain, convey, sell, lease, transfer, dedicate for public use or otherwise dispose of real or personal property in connection with the affairs of the Association;

(f) borrow money, and with the vote of two-thirds (2/3) of the votes of each class of membership entitled to be cast by the Members present or represented by proxy at a meeting at which a quorum is present and which is duly called and held for the following purpose, mortgage, pledge, deed in trust, or hypothecate any or all of its real or personal property as security for money borrowed or debts incurred;

(g) subject to the affirmative vote of two-thirds (2/3) of the votes of each class of membership entitled to be cast by the Members present or represented by proxy at a meeting at which a quorum is present and which is duly called and held for the following purpose, dedicate, sell or transfer all or any part of the Common Area to any public agency, authority, or utility for such purposes and subject to such conditions as may be agreed to by the Board of Directors.

(h) participate in mergers and consolidations with other non-profit corporations organized for the same purposes provided that any such merger or consolidation shall be authorized by the affirmative vote of two-thirds (2/3) of the votes of each class of membership entitled to be cast by the Members present or represented by proxy at a meeting at which a quorum is present and which is duly called and held for the foregoing purpose;

(i) have and to exercise any and all powers, rights and privileges which a corporation organized under the Non-Profit Corporation Law of the State of North Carolina by law may now or hereafter have or exercise.

Section 2. Duties. In addition to the duties set forth in Article VI, Section 1 of the Declaration, it shall be the duty of the Board of Directors:

(a) to cause to be kept a complete record of all of its acts and corporate affairs and to present a statement thereof to the Members at the Annual Meeting of the Members, or any special meeting when such statement is requested in

writing by one-fourth (1/4) of the Class A Members who are entitled to vote;

(b) to supervise all officers, agents and employees of this Association, and to see that their duties are properly performed;

(c) as more fully provided in the Declaration, to:

(1) fix the amount of the annual assessment against each Lot on or before December 31 of each year (provided, however, in the event the Board of Directors shall fail to so fix the amount of the annual assessment, the annual assessment then in effect shall continue until such time as the Board of Directors shall fix a different amount to be assessed annually against each Lot);

(2) send written notice of each assessment to every Owner subject thereto at least thirty (30) days in advance of each annual assessment period (provided, however, that failure of the Board of Directors to send such notice shall in no way affect the obligation of such Owner to pay annual assessments); and

(3) foreclose the lien against any property for which assessments are not paid within thirty (30) days after due date or to bring an action at law against the Owner personally obligated to pay the same.

(d) to issue, or to cause an appropriate officer to issue, upon demand by any person, a certificate setting forth whether or not any assessment has been paid. A reasonable charge may be made by the Board for the issuance of these certificates. If a certificate states an assessment has been paid, such certificate shall be conclusive evidence of such payment;

(e) procure and maintain insurance covering the Association, its directors, officers, agents and employees and procure and maintain adequate hazard insurance on the real and personal property owned by the Association as follows:

(1) A policy of property insurance in an amount equal to the full replacement value (i.e., 100% of current "replacement cost" excluding land, foundations, excavations, streets and parking facilities) of the Common Area owned by the Association (including all building service and related equipment) with an Agreed Amount Endorsement or its equivalent, if available, or an Inflation Guard Endorsement. Such insurance policy

must protect against loss or damage by fire and other hazards covered by the standard extended coverage endorsement, and by sprinkler leakage, debris removal, cost of demolition, vandalism, malicious mischief and windstorm. If coverage is available, the policy may include coverage for water damage.

(2) A comprehensive policy of public liability insurance insuring the Association in an amount not less than One Million Dollars (\$1,000,000.00) for claims for personal injury and/or Property damage arising out of a single occurrence, such coverage to include protection against liability for non-owned and hired automobiles and liability for property of others, and, if available, may include coverage for water damage.

(3) The Board of Directors shall maintain fidelity coverage against dishonest acts by the Association's officers, directors, trustees and employees, and all others who are responsible for handling funds of the Association. If the Association employs a professional property management person or firm to manage the Association and to receive and disburse the monies of the Association, then such professional management person or firm shall have adequate fidelity coverage against dishonest acts and the existence of such coverage shall satisfy the requirement of this paragraph. If the Association elects to manage its own affairs and directly receive and disburse its own funds (or, if in addition to professional management, the officers or directors of the Association can and do directly receive or disburse the monies of the Association), then the Board of Directors shall provide the coverage set forth in this paragraph.

Any such fidelity bonds shall name the Association as an obligee; shall be written in an amount equal to at least 150% of the estimated annual operating expenses of the Association, including reserves; shall contain waivers of any defense based on the exclusion of persons who serve without compensation from any definition of "employee" or similar expression; and shall provide that they may not be cancelled or substantially modified (including cancellation for non-payment of premium) without at least thirty (30) days prior written notice to the Association and to any Institutional Lender who has given the notice required under Article X, Section 3, of the Declaration.

(f) cause all officers or employees having fiscal responsibilities to be bonded, as it may deem appropriate;

(g) cause the Common Area to be maintained;

(h) maintain any dedicated streets or open spaces within the Property which are not accepted for dedication by an appropriate governmental authority;

(i) maintain roadway islands and medians, whether or not such islands are located within dedicated road rights of way;

(j) perform such other maintenance and services as set out in the Declaration; and

(k) if and when appropriate pursuant to Article VI of the Declaration, cause Lots and the exterior of dwellings on Lots to be maintained.

ARTICLE IX

OFFICERS AND THEIR DUTIES

Section 1. Enumeration of Officers. The officers of this Association shall be a president and one vice-president, who shall at all times be members of the Board of Directors, a secretary, assistant secretary, and a treasurer, and such other officers as the Board may from time to time by resolution create, including additional vice-presidents who need not be members of the Board of Directors.

Section 2. Election of Officers. The election of officers shall take place at the first meeting of the Board of Directors following each annual meeting of the Members.

Section 3. Term; Compensation. The officers of this Association shall be elected annually by the Board and each shall hold office for one (1) year unless he or she shall sooner resign, or shall be removed, or otherwise disqualified to serve. No officer shall receive compensation for services rendered in such capacity to the Association; provided, however, that an officer may be reimbursed for actual expenses incurred in the performance of such duties.

Section 4. Special Appointments. The Board may elect such other officers as the affairs of the Association may require, each of whom shall hold office for such period, have such authority, and perform such duties as the Board may, from time to time, determine.

Section 5. Resignation and Removal. Any officer may be removed from office with or without cause by the Board. Any officer may resign at any time by giving written notice to the Board, the president or secretary. Such resignation shall take effect on the date of receipt of such notice or at any later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 6. Vacancies. A vacancy in any office may be filled by appointment by the Board. The officer appointed to such vacancy shall serve for the remainder of the term of the officer he replaces.

Section 7. Duties. The duties of the officers are as follows:

(a) President. The president shall preside at all meetings of the Board of Directors; shall see that orders and resolutions of the Board are carried out; shall sign all leases, mortgages, deeds and other written instruments and shall co-sign all checks and promissory notes.

(b) Vice-President. The vice-president shall act in the place and stead of the president in the event of his absence, inability or refusal to act, and shall exercise and discharge such other duties as may be required of him by the Board.

(c) Secretary and Assistant Secretary. The secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the Members; keep the corporate seal of the Association and affix it on all papers requiring said seal; serve notice of meetings of the Board and of the Association together with their addresses, and shall perform such other duties as required by the Board. The assistant secretary shall assist the secretary and act in the place and stead of the secretary in the event of his or her absence.

(d) Treasurer. The treasurer shall receive and deposit in appropriate bank accounts all monies of the Association and shall disburse such funds as directed by resolution of the Board of Directors; shall sign all checks and promissory notes of the Association; keep proper books of account; cause an annual audit of the Association books to be made by an independent certified public accountant at the completion of each fiscal year; and shall prepare an annual budget and statement of income and expenditures to be represented to the membership at its regular annual meeting, and deliver a copy of each to the Members.

AMENDMENTS

Section 1. These Bylaws may be amended, at a regular or special meeting of the Members, by a vote of a majority of a quorum of Members present in person or by proxy.

Section 2. In the case of any conflict between the Articles of Incorporation and the Bylaws, the Articles shall control; in the case of any conflict between the Declaration and these Bylaws, the Declaration shall control; and in the case of any conflict between the Articles and the Declaration, the Declaration shall control.

ARTICLE XVI

MISCELLANEOUS

The fiscal year of the Association shall begin on the first day of January and end on the 31st day of December of every year, except that the first fiscal year shall begin on the date of incorporation.

CERTIFICATION

I, the undersigned, do hereby certify:

THAT I am the duly elected and acting Secretary of Preston Trace-Phase II Homeowners Association, a North Carolina corporation, and

THAT the foregoing Bylaws constitute the original Bylaws of said Association, as duly adopted at a meeting of the Board of Directors thereof, held on the _____ day of _____, 19__.

Patricia E. Hanchetta
_____, Secretary

(CORPORATE SEAL)