

PUBLIC OFFERING STATEMENT FOR HUGHES RETREAT CONDOMINIUM

This Public Offering Statement is being offered to contract purchasers of condominium units in the proposed Hughes Retreat Condominiums as required by the North Carolina Condominium Act. It contains a summary of the important features of the proposed condominium project, and must by law be delivered to each purchaser prior to the execution of a sales contract.

ARTICLE ONE

NAME AND ADDRESS OF THE DECLARANT AND THE CONDOMINIUM

| | |
|-------------------------|--|
| Name of Declarant: | Hughes Retreat, LLC |
| Address of Declarant: | 5149 Tilden Street, NW Washington, D.C. 20016 |
| Name of Condominium: | Hughes Retreat Condominium |
| Address of Condominium: | 2010 South Virginia Dare Trail Kill Devil Hills, NC 27948 |

ARTICLE TWO

GENERAL DESCRIPTION OF THE CONDOMINIUM AND THE CONDOMINIUM CONCEPT

2.01 The Condominium consists of one wood frame building having three floors with four condominium units per floor.

2.02 The condominium ownership a property right which, in effect, combines two older forms of ownership. The condominium unit owner is (1) the sole owner of the portion of a building which comprises his living quarters and is (2) one of several joint owners (legally speaking, "tenants in common") of common facilities which the unit owners may use and enjoy along with other joint owners. Each individual unit owner has an "undivided interest" in the common elements which means that all unit owners have a share in the ownership of all common elements. An undivided interest gives the unit owner the right to share in the control of all the common elements, but he must also pay his share of the normal expenses of operating and maintaining all the common elements and abide by any rules and regulations enacted by the Hughes Retreat Condominium Association, Inc. It is the ownership of an undivided interest in the common elements which sets condominium ownership apart from other forms of property ownership. Common elements are to be enjoyed equally by all unit owners except for "limited common elements" which are enjoyed and used by one unit owner.

2.03 The condominium described in this Public Offering Statement has been or will be created by recordation of the Declaration of Condominium in the Dare County Registry, Dare County, North Carolina, along with the Bylaws for the Unit Owners' Association, Hughes Retreat Condominium Association, Inc. and the plats and plans of the land submitted to the North Carolina Condominium Act, Chapter 47C of the North Carolina General Statutes (hereinafter referred to as the "Condominium Documents"). The Declaration submits the land and the improvements to a condominium regime. The Bylaws govern the respective owners' association and the plats and plans depict the units and common areas. The purchaser will be furnished copies of these documents as provided by law. This Public Offering Statement and each of the Condominium Documents may be revised and amended at any time by the Declarant.

ARTICLE THREE NUMBER OF UNITS

3.01 There shall be twelve (12) units in the Condominium, with each unit having an undivided 8.33% interest in the Common Elements and the same percentage liability of common expenses.

ARTICLE FOUR DECLARATION

4.01 Attached hereto as **Exhibit A** is a copy of the Declaration, which Declaration has the following Exhibits: (A)-(F). A copy of the elevations and floor plans consisting of four pages are attached as **Exhibit G** and a copy of the Site Plan showing common elements, location of the building and limited common elements is attached as **Exhibit H**.

ARTICLE FIVE UNIT OWNERS' ASSOCIATION

5.01 In compliance with the North Carolina Condominium Act (the "Act") there has been created for the Unit Owners an Association to govern the Condominium. The Unit Owners' Association will be known as Hughes Retreat Condominium Association, Inc. (the "Association"). The Association will become functional once a Unit has been sold and conveyed to a purchaser. Each Unit Owner will have one vote in the affairs of the Association. The Board of Directors of the Association will elect officers who will make various decisions regarding the governance of the Condominium, as is more specifically set out in the Declaration of Condominium and By-Laws. The operating expenses of the Association will be paid by the Unit Owners based upon an annual budget. The Association will bill each unit owner quarterly in advance for his pro-rata share of the Common Expenses. Each Unit Owner has an interest in the Common Elements of the Condominium which is appurtenant to and part of his fee simple interest ownership of his respective unit. Liability for the Common Expenses and other assessments of the Condominium will be borne by each unit in proportion to the percentage of

his interest in the Common Elements. That percentage is 8.33% per unit with each unit having one vote in the Condominium.

5.02 If a Unit Owner fails to pay an assessment when due, the Association will have a lien against that unit and may file a Claim of Lien in the Office of the Dare County Clerk of Court.

5.03 During the Period of Declarant Control or until the Association makes a Common Expense Assessment, whichever occurs first, the Declarant is responsible for all Common Expenses of the Association. Thereafter, the Declarant must pay assessments on unsold units which have been completed and submitted to the Declaration of Condominium.

5.04 The Association shall have all powers and responsibilities in regard to maintenance, repair, renovation, restoration and replacement of the Common Elements of the Condominium which shall be borne pro-rata by all unit owners according to the percentage of interest in the Common Elements. Common Elements will include the parking areas within the Condominium Property and all other improvements designated as Common Elements on the plans of the Condominium Property. The Common Elements are to be maintained by the Association for the benefit and use of its owners.

ARTICLE SIX PROJECTED BUDGET

6.01 The Association has not yet been formed, but will be formed by Declaration prior to the first conveyance of a condominium unit, and hence no current balance sheet for the Association exists.

6.02 The projected budget for the first year of operation for the Association has been prepared by the Declarant and is attached hereto as **Exhibit I**. The projected budget includes amounts to be allocated as reserves for repairs and replacements and other reserve accounts established in the Condominium Documents, as well as projected common expense assessments by category of expenditures for the Association with an estimate of the amount that will be charged in excess annually for each unit.

6.03 The project budget has been prepared by Declarant, based on good-faith estimates from contractors and subcontractors, and are based on an occupancy level of 100% and a collection rate of 100%. Projected budget amounts are not adjusted for inflation.

ARTICLE SEVEN FUTURE COMMON EXPENSES

7.01 Declarant at the present time does not provide any services and does not pay for any expenses which Declarant anticipates may become a subsequent common expense of the Association, except for those matters that are reflected in the Association's proposed budget.

ARTICLE EIGHT
FEE DUE FROM PURCHASER AT CLOSING

8.01 Declarant will collect from each purchaser at closing a working capital contribution equal to one quarterly assessment for common expenses reflected in the initial budget. This amount, which is non-refundable, will be paid over by Declarant to the Association to capitalize the operating funds of the Association.

ARTICLE NINE
EXISTING LIENS OR ENCUMBRANCES ON THE CONDOMINIUM

9.01 Declarant financed the construction of the building and improvements with the proceeds of a loan from First South Bank, which loan is secured by a first lien Deed of Trust on the Condominium. In the event this lien is not satisfied prior to the closing of your unit, the unit and its related interest in the common elements will be released from this lien at the time of closing.

9.02 Each unit will be conveyed subject to the lien of Dare County and the Town of Kill Devil Hills taxes for the year of closing and subsequent years, which are not yet due and payable, standard title exceptions for general utility service easements, and the permitted exceptions described on **Exhibit F** to the Declaration.

ARTICLE TEN
DECLARANT'S WARRANTIES

10.01 The Declarant makes no other warranties other than those required specifically by Sections 47C-4-115 and 47C-4-115 of the North Carolina Condominium Act. Declarant makes no warranties as to consumer products such as appliances which are covered by manufacturers' warranties. Declarant makes no warranty express or implied with regard to any present or future view from any Unit which Unit's sight line could be impacted by any future construction on adjacent properties.

ARTICLE ELEVEN
JUDGMENTS AND PENDING SUITS

11.01 There are no known or recorded unsatisfied judgments or pending suits against the Association or the Declarant or pertaining in any way to the Condominium. There are no pending suits material to the Condominium of which the Declarant has actual knowledge.

ARTICLE TWELVE
ESCROW DEPOSIT

12.01 Any escrow deposit or earnest money payment made by a purchaser in connection with the purchase of a unit will be held in an escrow account with the law firm of Vandeventer Black LLP, in accordance with NCGS Sec. 47C-4-108, as required by the North Carolina Condominium Act.

Payments held in such escrow account shall be deemed to belong to the purchaser and not the Declarant. The deposit itself shall be held in such account until at least seven (7) days after this Public Offering Statement has been delivered to Purchaser and an Offer to Purchase and Contract has been executed by the Parties. After that date, if Purchaser has not cancelled the Contract, the deposit will be held and disbursed in accordance with the Offer to Purchase and Contract between the Parties.

ARTICLE THIRTEEN INSURANCE COVERAGE

13.01 The Association has not yet been formed, and currently has no insurance coverage in force. The Declarant has secured a builders risk policy covering the property through the date the Condominium is turned over from Declarant to the Association. The minimum requirements for the insurance coverage that will be maintained by the Association for the benefit of unit owners are set forth in the Bylaws, and includes 100% replacement coverage on the building (less a commercially reasonable deductible not to exceed \$10,000), liability insurance with coverage of at least \$1,000,000 per occurrence, and fidelity bond coverage. The Association may elect to obtain more extensive insurance coverage once it is organized. You are urged to consult with your insurance adviser to assure that you are aware of the extent of insurance coverage to be provided by the Association, and the advisability of purchasing additional insurance to cover your individual exposure, such as the value of your personal property, or individual liability insurance coverage.

ARTICLE FOURTEEN FEES FOR USE OF COMMON ELEMENTS

14.01 Other than the annual and special assessments for maintenance, operations, reserves, and utilities provided for by the Declaration and Bylaws, there are no present and no known or anticipated future fees or charges to be paid by Unit Owners for the use of the common elements and other Condominium facilities.

ARTICLE FIFTEEN ZONING AND LAND USE REQUIREMENTS

15.01 Zoning Regulations. The condominium is located in the Town of Kill Devil Hills, Dare County, North Carolina, which permits zoning of multi-family residences.

15.02 A general limitation that Units may be used only for residential purposes.

15.03 A general prohibition against unlawful, offensive or obnoxious activity.

15.04 Other restrictions as set forth in Article V of the Declaration.

ARTICLE SIXTEEN
ALIENATION OF COMMON ELEMENTS

16.01 Pursuant to the North Carolina Condominium Act and the terms of the Declaration, portions of the common elements of the Condominium may be conveyed by the Association or subjected to a security interest only if persons entitled to cast at least ninety percent (90%) of the votes allocated to units, not owned by the Declarant, agree to the action.

ARTICLE SEVENTEEN
DEVELOPMENTAL RIGHTS

17.01 Special Declarant Rights. Declarant shall have Special Declarant Rights as defined in Section 1.35 of the Declaration including but not limited to the right to appoint, elect or remove any officer or director from the Association.

17.02 Reservation of Easement for Parking Spaces. The Declarant has reserved an easement for access and sole right of use to parking spaces 37, 38, 39 and 40 as shown on the Plans and set forth in Section 3.6 of the Declaration.

ARTICLE EIGHTEEN
EXHIBITS

18.01 The following exhibits are attached to and are an integral part of this Public Offering Statement:

| | | |
|-----------|----|--|
| Exhibit A | -- | Declaration of Condominium |
| Exhibit B | -- | Bylaws of Association |
| Exhibit C | -- | Articles of Incorporation of Association |
| Exhibit D | -- | Allocated Percentage Interest in Common Elements and Common Expenses |
| Exhibit E | -- | Assignment of Parking Spaces as Limited Common Elements |
| Exhibit F | -- | Permitted Exceptions |
| Exhibit G | -- | Site Plan |
| Exhibit H | -- | Floor Plans and Elevations |
| Exhibit I | -- | Projected Initial Annual Budget |

ARTICLE NINETEEN
UNIT PURCHASER'S RIGHT TO CANCEL

19.01 The purchaser of a Unit ("Purchaser") must receive this Public Offering Statement before signing a contract for purchase. No conveyance of title by deed can occur until seven (7) calendar days following the signing of a contract for such purchase. The Purchaser has the absolute right to cancel the contract to purchase during that seven (7) calendar day period without penalty. Additionally, in the event this Public Offering Statement, or any of the exhibits attached hereto are materially changed or modified, all Purchasers will be provided notice thereof from Declarant and shall have the absolute right to cancel such contract to purchase during the seven (7) calendar day period immediately following such notice, without penalty. Under the North Carolina Condominium Act, a purchaser electing to cancel a contract may do so by hand-delivering notice to the Declarant or by mailing notice by prepaid United States mail to Declarant at the address specified above.

ARTICLE TWENTY
ACKNOWLEDGEMENT

21.01 The execution of a contract of sale by a purchaser constitutes an acknowledgment by the purchaser that he has been given a copy of this Public Offering Statement.

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Prepared by & return to:
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DECLARATION OF HUGHES RETREAT CONDOMINIUM

THIS DECLARATION, made this 27th day of October, 2004 by Hughes Retreat, LLC, a North Carolina Limited Liability Company (hereinafter referred to as the "Declarant"), pursuant to the North Carolina Condominium Act, Chapter 47C, North Carolina General Statutes (the "Act") of 5149 Tilden Street NW, Washington, DC 20018.

BACKGROUND STATEMENT

Declarant is the owner of a certain parcel of real estate located in the Town of Kill Devil Hills, Dare County, North Carolina (the "Land") as more particularly described on **Exhibit "A"** attached hereto and incorporated herein by reference. Declarant desires to submit the Land and the improvements located thereon (collectively the "Property") to the terms and provisions of the North Carolina Condominium Act.

In addition Declarant has deemed it desirable to create an incorporated owners' association which will be delegated and assigned powers of maintaining and administering the common areas and facilities on the Property; of administering and enforcing the covenants and restrictions created in this Declaration; and of levying, collecting and disbursing the assessments and charges created in this Declaration; of

collecting and holding replacement reserves as agent for the Unit Owners; and of taking any steps or performing any acts deemed necessary or appropriate to preserve the values of condominium units within the Property and to promote the recreation, health, safety and welfare of the Owners. In order to accomplish the foregoing, Declarant is entering into this Declaration.

STATEMENT OF DECLARATION

NOW, THEREFORE, Declarant hereby declares that all of the Property shall be held, transferred, sold, conveyed, occupied and used subject to the following covenants, conditions, easements, uses, limitations, obligations and restrictions, all of which are declared and agreed to be in furtherance of a plan for the division of the Property into condominium units, and shall be deemed to run with the land and shall be a burden and benefit to Declarant, its successors and assigns, and any person or entity acquiring or owning an interest in the Property, and their grantees, successors, heirs, executors, administrators, devisees and assigns.

ARTICLE I Definitions

Unless it is plainly evident from the context that a different meaning is intended, the following terms, words, and phrases shall have the following meanings when used in this Declaration.

1.1 Act. "Act" shall mean and refer to the North Carolina Condominium Act, Chapter 47C, North Carolina General Statutes.

1.2 Articles of Incorporation. "Articles of Incorporation" shall mean and refer to the articles of incorporation of the Association filed with the Office of the Secretary of State of North Carolina which are incorporated herein and made a part hereof by this reference, and attached as **Exhibit "C"**.

1.3 Assessment. "Assessment" shall mean and refer to the owner's share of the common expenses assessed against such owner and their unit from time to time by Hughes Retreat Condominium Association in the manner hereinafter provided.

1.4 Association. "Association" shall mean and refer to the Hughes Retreat Condominium Association, Inc., a non-profit corporation organized and existing under the laws of the North Carolina Non Profit Corporation Act pursuant to and in accordance with this Declaration, the Bylaws and the North Carolina Condominium Act.

1.5 Board of Directors. "Board of Directors" shall mean and refer to the governing body from time to time of the Association as constituted in accordance with the Articles of Incorporation of the Association, the Bylaws and the North Carolina Condominium Act.

1.6 Building. "Building" shall mean and refer the three (3) story building containing four (4) Units on each floor located upon the Land as more particularly described in the Plans.

1.7 Bylaws. "Bylaws" shall mean and refer to the bylaws of the Association, a copy of which is attached hereto as **Exhibit "B"** and incorporated herein by reference, and all amendments to such bylaws which may from time to time be adopted.

1.8 Common Elements. "Common Elements" shall mean and refer to all parts of the Property other than the Units and shall include without limitation: the Land, improvements that are not part of the Units, including all foundations, columns, load bearing walls, girders, beams, supports, walls, roofs, exterior stairs, sewage collection, treatment and disposal system and Limited Common Elements.

1.9 Common Element Interest. "Common Element Interest" shall mean and refer to the percentage assigned to each Unit by this Declaration, which establishes each Unit's: (a) appurtenant undivided ownership interest in the Common elements; (b) liability for Common Expenses; (c) interest in surplus funds of the Association; and (d) votes in the Association.

1.10 Common Expenses. "Common Expenses" shall mean and include:

(a) all lawful expenditures made or incurred by or on behalf of the Association and one (1) or more but less than all of the Units ("Limited Common Expenses"), including all assessments for the creation and maintenance of reserves; and

(b) Expenses of administration, maintenance, repair or replacement of the Common Elements, including repair and replacement reserves as may be established from time to time:

(c) Expenses agreed upon to be Common Expenses by the Association; and

(d) Expenses declared Common Expenses by this Declaration or the Bylaws.

1.11 Condominium. "Condominium" shall mean and refer to Hughes Retreat Condominium as established by the submission of the Property to the terms of the North Carolina Condominium Act by this Declaration.

1.12 Condominium Instruments. "Condominium Instruments" shall mean and refer to this Declaration, the Articles of Incorporation of the Association, the Bylaws, the Public Offering Statement, and the Rules and all attachments and exhibits thereto.

1.13 Declarant. "Declarant" shall mean and refer to Hughes Retreat, LLC, a North Carolina limited liability company, its successors, or any party to which it assigns its rights as Declarant under this Declaration.

1.14 Declarant Control Period. "Declarant Control Period" shall mean and refer to the period prior to the earliest of: (i) the date on which Units to which seventy-five percent (75%) or more of the total Common Element Interests appurtenant to the Units have been conveyed to the Unit Owners other than the Declarant; (ii) five (5) years after the date of the first conveyance of a Unit to a Unit Owner other than the Declarant; or (iii) the date specified by the Declarant in a notice to the Association that the Declarant Control Period is to terminate on that date.

1.15 Declaration. "Declaration" shall mean and refer to this Declaration of Condominium, as it may be amended from time to time.

1.16 First Mortgage and First Mortgagee. "First Mortgage" shall mean and refer to a mortgage or deed of trust which has been recorded so as to give constructive notice thereof, and which is a first lien on the Units described therein. A "First Mortgagee" shall mean and refer to a holder, from time to time, of a First Mortgage as shown by the records of the Dare County Registry in which the First Mortgage is recorded, including a purchaser at foreclosure sale upon foreclosure of a First Mortgage until expiration of the mortgagor's period of redemption. If there be more than one holder of a First Mortgage, they shall be considered as, and act as, one First Mortgagee for all purposes under this Declaration and the Bylaws.

1.17 Land. "Land" shall mean and refer to the real property subject to this Declaration exclusive of any improvements located thereon or incorporated therein, which is more particularly described on **Exhibit "A"** attached hereto

1.18 Limited Common Elements. "Limited Common Elements" shall mean and refer to those parts of the Common Elements which are Limited Common Elements within the meaning of the Condominium Act and which are reserved for the exclusive use of one or more, but less than all of the Units and the Unit Owners. The Limited Common Elements existing at the time of the recordation of this Declaration are shown on the Plans, but shall also consist of any other portions of the Condominium which serve and benefit less than all of the Units.

1.19 Limited Common Expenses. "Limited Common Expenses" shall mean and refer to expenses separately assessed against one (1) or more but less than all of the Units. Except where the context requires otherwise, Common Expenses shall include Limited Common Expenses.

1.20 Majority Vote. "Majority Vote" shall mean and refer to a simple majority [more than fifty percent (50%) of the votes actually cast in person or by proxy at a duly called and held meeting at which a quorum is present. Any specified percentage vote means that percentage vote with request to the votes actually cast in person or by proxy at a duly held meeting at which a quorum is present. Any specified percentage vote of the Mortgagees means a vote by the Mortgagees of Units to which such percentage of the total number of votes appertain.

1.21 Managing Agent. "Managing Agent" shall mean and refer to a person employed by the Association to perform obligations, duties and services relating to the management and maintenance of the Property and the maintenance of reserve funds in compliance with the provisions of this Declaration and the Bylaws

1.22 Member. "Member" shall mean and refer to any Unit Owner.

1.23 Mortgage. "Mortgage" shall mean and refer to a mortgage or deed of trust constituting a lien on a Unit or Units.

1.24 Mortgagee "Mortgagee" shall mean and refer to the owner and holder of a Mortgage.

1.25 North Carolina Condominium Act. "North Carolina Condominium Act" shall mean and refer to Chapter 47C of the North Carolina General Statutes.

1.26 Occupant. "Occupant shall mean and refer to any person or persons in possession of a Unit, including Unit Owners, lessees, guests and invitees of such person or persons, and guests and invitees of such lessees.

1.27 Owner. "Owner" shall mean and refer to the record owner, whether one or more persons or entities, of fee simple title to any Unit but shall exclude those persons or entities having an interest in any Unit, or holding title to any Unit merely as security for the payment or performance of a debt or obligations.

1.28 Person. "Person" shall mean and refer to any individual, partnership, joint venture, association, limited liability company, corporation, trust or any other legal entity.

1.29 Plans. "Plans" shall mean and refer to the floor plans, specifications and elevations of the Building and Property prepared by Benjamin Cahoon, Registered Architect Permit# 5413 of Cahoon & Kasten, P.C. and recorded under the name of the Condominium in the Unit Ownership File in the Public Registry of Dare County, North Carolina in Unit Ownership File ____ at Slides _____.

1.30 Plat. "Plat" shall mean and refer to that survey of the Land captioned "Hughes Retreat Condominium Documents - Kill Devil Hills, Dare, North Carolina Site Plan" dated October 18, 2004 prepared by Bissell Professional Group and recorded with the Plans in the Public Registry of Dare County, North Carolina.

1.31 Property. "Property" shall mean and refer to the Land, the Building and all other improvements and structures located on the Land; all easements, rights and appurtenances belonging or appertaining to the Land; and all articles of personal property intended for common use in connection therewith.

1.32 Replacements Reserves. "Replacements Reserves" shall mean and refer to those Common Expense assessments collected and held by the Association in accordance with the bylaws, for the purposes of defraying projected future replacement costs of Common Elements.

1.33 Rules. "Rules" shall mean and refer to any rules and regulations adopted from time to time by the Board of Directors that are deemed necessary for the enjoyment of the Common Elements provided they are not in conflict with this Declaration and the Bylaws.

1.34 Special Declarant Rights. "Special Declarant Rights" shall mean and refer to the rights reserved herein and in the Bylaws for the benefit of a Declarant, as follows: to complete the improvements indicated on the Floor Plans; to maintain sales offices, management offices, models and signs advertising the Condominium; to use easements through the Common Elements; to elect, appoint or remove members of the Board during the Declarant Control Period; and to add Additional Real Estate.

1.35 Unit. "Unit" shall mean and refer to that physical portion of the Condominium, whether or not contained solely or partially within the Building, together with its percentage of undivided interest in the Common Elements as set forth on **Exhibit "D"**, the boundaries of which are described pursuant to Section 47C-2-105 of the Act.

1.36 Unit Boundaries. "Unit Boundaries" shall mean and refer to the boundaries of each Unit, both as to vertical and horizontal planes, as shown on the Plans, are the undecorated surfaces of the perimeter walls, exterior doors and exterior windows facing the interior of the Unit, the undecorated surfaces of the ceiling facing the interior of the Unit, and the topmost surfaces of the sub-flooring, and include the decoration on all such interior and topmost surfaces, including, without limitation, all paneling, tiles, wallpaper, paint, finished flooring and any other materials constituting any part of the decorated surfaces thereof, and also includes all spaces, interior partitions and other fixtures and improvements within such boundaries. Also included as a part of the Unit shall be all portions of the heating and air conditioning system for the Unit whether the same are located within or without the perimeter walls of the Unit.

1.37 Unit Owner. "Unit Owner" shall mean and refer to the person or persons, owning a Unit in fee simple but does not include any person having an interest in a Unit solely as security for an obligation.

1.38 Wastewater Treatment System. "Wastewater Treatment System" shall mean and refer to those portions of the Common Elements consisting of and necessary for the operation of the sewage collection treatment and disposal system.

In addition, the definitions set forth in N.C.G.S. §47C-1-103 are incorporated in this Declaration by reference, and the terms defined therein shall have the meanings set forth therein when used in this Declaration or the Condominium Instruments, unless those terms are expressly defined otherwise in this Declaration or unless it is plainly evident from the context that a different meaning is intended.

ARTICLE II

Submission of Property to the Act

2.1 Submission. Declarant hereby submits that Land described in **Exhibit "A"** together with the Building and any other improvements to the terms of the North Carolina Condominium Act.

2.2 Name. The Property shall hereafter be known as Hughes Retreat Condominium.

2.3 Location of Building. The location and dimensions of the Building are shown on the Plat and Plans.

2.4 Units. Location of the Units within the Building are shown on the Plans. There are a total of twelve (12) Units in the Building.

2.5 Division of Property in to Twelve Separately Owned Units. Declarant, pursuant to the Act, and to establish a plan of condominium ownership for the Condominium, does hereby divide the Property into Twelve (12) Units and does hereby designate the Units for separate ownership, subject however, to the provisions of Section 2.7 hereof.

2.6 Unit Boundaries.

The boundaries of each of the Units are as follows:

(a) Upper Boundary: The horizontal planes formed by the lowermost unfinished surfaces of the wooden structural ceiling elements of the Unit, extended to intersections with each other, and with the vertical boundaries.

(b) Lower Boundary: The unfinished horizontal plane of the top surface of the flooring within the Unit.

(c) Vertical Boundaries: The vertical planes formed by the innermost unfinished surface of the wallboard bounding the Unit, extended to intersections with each other, and with the upper and lower boundaries.

As provided in N.C.G.S. §47C-2-102, if any chute, flue, duct, wire, HVAC equipment, pipe for water or sewer, conduit, bearing wall, bearing column, or any other fixture lies partially within and partially outside the designated boundaries of a Unit, any portion thereof serving only that Unit shall be an Individual Limited Common Element allocated to that Unit, and any portion thereof serving more than one Unit or any portion of the Common Elements or Limited Common Elements,

shall be a Common Element or Limited Common Element (as applicable), allocated to the Unit or Units which it serves.

2.7 Alteration of Units. Subject to the provisions of the Declaration and the Bylaws, a Unit may be altered pursuant to the provisions of Sections 47C-2-111 and 47C-2-112, but a Unit may not be subdivided into two (2) or more Units.

2.8 Allocations. The allocation to each Unit of a percentage of undivided interest in the Common Elements and of a percentage of the Common Expenses, is as stated on **Exhibit "D"**. The allocation of undivided interests in the Common Elements and of the Common Expenses has been determined in relation to the votes per Unit in the Association which is equal with each Unit having one vote and each Unit sharing one-twelfth (8.33%) of the Common Elements and Common Expenses.

2.9 Common Elements. The Common Elements shall be composed of all portions of the Condominium other than those items which are shown on the Plans, or designated in this Declaration, as Units, Limited Common Elements, or Individual Limited Common Elements. The Common Elements shall include without limitation:

- (a) The Land;
- (b) All structural elements of the Building, including without limitation, the roof structure, foundation, load bearing walls, and all other structural elements.
- (c) All water lines, electric lines, telecommunications lines and utility lines located outside public street rights-of-way and utility easements, serving more than one Unit and not owned by the providing utility;
- (d) Central components of the heating, ventilation and air conditioning system, which serve more than one Unit;
- (e) The fire prevention sprinkler system and all components thereof;

- (f) The exterior walls (not including windows and doors), the basement and stairs leading thereto, and the roof;
- (g) Swimming pool; and
- (h) Elevator and stairways.

2.10 Limited Common Elements. The Limited Common Elements shall be composed of those items designated on the Plans as Limited Common Elements, and shall also include any other portions of the Condominium which serve and benefit the Residential Units exclusively. The Limited Common Elements shall include without limitation the following:

- (a) Parking spaces assigned to the Units as set forth in **Exhibit "E"**; and
- (b) Storage units and showers assigned to the Units as set forth on the Plans.

2.11 Encumbrances. The liens, defects and encumbrances affecting the Property to which the rights of Unit Owners and Occupants are hereby made subject are set out on **Exhibit "F"**.

2.12 Condominium Ordinances. The Condominium is not subject to any code, real estate use law, ordinance, charter provision, or regulation (i) prohibiting the condominium form of ownership, or (ii) imposing conditions or requirements upon a condominium which are not imposed upon physically similar developments under a different form of ownership. This statement is made pursuant to Section 47C-1-106 of the Act for the purpose of providing marketable title to the Units in the Condominium.

ARTICLE III **Easements**

3.1 Encroachments. In the event that, by reason of the construction, reconstruction, rehabilitation, alteration or improvement of the Building or other improvements comprising a part of the Property, any part of the Common Elements now or hereafter encroaches upon any part of any Unit, or any part of the Common Elements, or upon any part of another Unit, an easement for the continued existence and maintenance of each such encroachment is hereby declared and granted and shall continue for so long as each such encroachment exists; provided that in no event shall

an easement for such encroachment be created if such encroachment is detrimental to or interferes with the reasonable use and enjoyment of the Common Elements or Units so encroached upon.

3.2 Easements Through Walls. Easements are hereby declared and granted to the Association and to such persons as are authorized by the Association, to install, lay, maintain, repair and replace any ducts, vents, pipes, wires, conduits and other utility installations, and structural components running through the walls of the Units, whether or not such walls lie in whole or in part within the boundaries of any Unit.

3.3 Easements of Owners and Association With Respect To Common Elements. Each Unit Owner shall have a perpetual, non-exclusive easement in common with all other Unit Owners to use all pipes, wires, ducts, cables, conduits, public utility lines, and other Common Elements located in any of the other Units and serving his Unit. Each Unit shall be subject to a perpetual non-exclusive easement in favor of all other Unit Owners to use the pipes, wires, ducts, cables, conduits, public utility lines, and other Common Elements serving such other Units and located in such Units. The Association, or any person authorized by it, shall have the right of access to each Unit and to the Limited Common Elements upon reasonable advanced notice to the Unit Owner (except in cases of emergencies, in which cases no advanced notice shall be required) to the extent necessary for performance by the Association of its obligations of maintenance, repair, or replacement of the Common Elements. Such person shall use good faith efforts to conduct such maintenance, repair and replacement operations at such times and in such a manner as to minimize to the extent reasonably possible any intrusion on or interference with the activities of the Unit Owner.

3.4 Easements To Repair, Maintain, Restore and Reconstruct. Wherever in, and whenever by, this Declaration, the Bylaws or the Act, a Unit Owner, the Association, the Board, or any other person, is authorized to enter upon a Unit or the Common Elements to inspect, repair, maintain, restore or reconstruct all or any part of a Unit or the Common Elements, such easements as are necessary for such entry and such repair, maintenance, restoration or reconstruction are hereby declared and granted.

3.5 Easements for Utilities. The Units and Common Elements shall be, and are hereby, made subject to easements in favor of the Association, appropriate utility and service companies and governmental agencies or authorities for such utility and service lines and equipment as may be necessary or desirable to serve any portion of the Property. The easements provided for by this Section 3.5 shall include, without limitation, rights of the Association, any providing utility, any service company, and

any governmental agency or authority and any of them to install, lay, maintain, repair, relocate and replace gas lines, pipes and conduits, water mains and pipes, sewer and drain lines, telephone wires and equipment, television equipment and facilities (cable or otherwise), electrical wires, conduits and equipment and ducts and vents and any other appropriate equipment and facilities over, under, through, along and on the Units and Common Elements. Notwithstanding the foregoing provisions of this Section 3.5, unless approved in writing by the Unit Owner of Unit Owners affected thereby, any such easement through a Unit shall be located either in substantially the same location as such facilities or similar facilities existed at the time of first conveyance of the Unit by the Declarant to a grantee other than the Declarant, or so as not to materially interfere with the use or occupancy of the Unit by its Occupants.

3.6 Declarant's Easement and Reservation of Parking Spaces. Declarant hereby reserves such easements through the Common Elements as may be reasonably necessary for the purposes of discharging its obligations, which easements shall exist as long as reasonably necessary for such purpose.

Declarant further reserves in perpetuity a non-exclusive easement for ingress, egress and regress to and from North Carolina Highway 12 for access to and for the purpose of having sole right of use to those parking spaces enumerated on the plans as: 37, 38, 39 and 40 (the "Reserved Parking Spaces"), said Reserved Parking Spaces being located in the Southeast corner of the Common Elements of the Land. This Reservation of rights and access to the Reserved Parking Spaces shall not be subject to any assessments by the Association.

3.7 Granting of Easements by the Executive Board. The Executive Board may hereafter grant easements encumbering the Common Elements for utility purposes for the benefit of the Property, including the right to install, lay, maintain, repair and replace water lines, sewer lines, pipes, ducts, gas mains, telephone, and television or cable television wires, cables, and equipment, electrical conduits, and wires over, under and along and upon any portion of the Common Elements, and may grant such other easements encumbering the Common Elements as the Executive Board deems in its discretion necessary for the benefit of the Condominium; and each Unit Owner hereby grants the Executive Board an irrevocable power of attorney to execute, acknowledge, and record for and in the name of each Unit Owners such instruments as may be necessary to effectuate the foregoing.

3.8 Drainfield Easement. The Land is subject to that drainfield easement on the North as designated on the Plans pursuant to that Agreement recorded in Deed Book 1037 at Page 32 of the Public Registry of Dare County, North Carolina.

3.9 Easements To Run With Land. All easements and rights described in this Article III are appurtenant easements running with the land, and except as otherwise expressly provided in this Article III shall be non-exclusive and perpetually in full force and effect, and shall inure to the benefit of and be binding upon Declarant, the Association, Unit Owners, Occupants, First Mortgagees and any other person having any interest in the Condominium or any part thereof. The Condominium and every part thereof shall be conveyed and encumbered subject to and together with all easements and rights described in this Article III, whether or not specifically mentioned in any such conveyance or encumbrance.

ARTICLE IV Declarant Rights

4.1 Special Declarant Rights. The Declarant reserves the following Special Declarant Rights so long as the Declarant owns a Unit: (a) to complete any improvements shown on the Plans; (b) to maintain sales offices, management offices, signs advertising the Condominium and models in Units that are not occupied and are for sale by the Declarant, in Units owned by the Declarant, and in the Common Elements of the Condominium; (c) to use easements through the Common Elements for the purpose of making improvements within the Condominium; (d) to elect, appoint, or remove any officer of the Association or any Member of the Board during the Declarant Control Period.

4.2 Declarant Inspections. The Declarant shall have the right, but not the obligation, to conduct inspections and tests from time to time of all or any parts of the Common Elements, including the Limited Common Elements, in order to ascertain the physical condition of the improvements in the Condominium and to determine whether maintenance, repairs or replacements of any such improvements is indicated. The Declarant shall have such rights of entry on, over, under, across and through the Condominium as may be reasonably necessary to exercise the rights described in this Section.

4.3 Transfer. The rights described in this Article shall not be transferred except by instrument evidencing the transfer executed by the Declarant or the Declarant's successor and the transferee, and recorded in the Public Registry of Dare County, North Carolina.

ARTICLE V
Restrictions, Conditions and Covenants

5.1 Compliance with Declaration, Bylaws and Rules and Regulations. Each Unit Owner and Occupant shall comply with all applicable provisions of the Act, this Declaration, the Bylaws, the Articles of Incorporation of the Association, and rules and regulations promulgated by the Board or the Association, as amended. Failure to comply shall be grounds for an action by the Association, an aggrieved Unit Owner, or any person adversely affected, for recovery of damages, injunction or other relief.

5.2 Administration of Condominium. The Condominium shall be administered in accordance with the provisions of the Act, this Declaration and Bylaws.

5.3 Restrictions on Use of Common Elements and Units.

Restrictions: The Common Elements and Units shall be restricted as follows:

(a) Nothing shall be done or kept in the Common Elements or in any Unit which will increase the rate of insurance for the Property or any part thereof without the prior written consent of the Board of Directors. Any such increase in the rate of insurance may be assessed against the Member causing such increase. No Member shall permit anything to be done or kept in such Common Elements or Units which will result in the cancellation of insurance on the Property or any part thereof or which would be in violation of any law, regulation or administrative ruling. No waste will be committed on the Common Elements.

(b) No improper, offensive, obnoxious, or unlawful use shall be made of the Common Elements or any part thereof or any Unit, and all valid laws, zoning ordinances and regulations of all governmental agencies having jurisdiction thereof shall be observed. No change shall be made in the Common Elements which would cause the loss of state or federal historic rehabilitation tax credits. All laws, orders, rules, regulations or requirements of any governmental agency having jurisdiction thereof relating to any portion of the building shall be complied with by and at the sole expense of the Member(s) or the Association, whichever shall have the obligation to maintain or repair

such portion of the Building. No Member or tenant shall overload Building electrical structure, or plumbing systems.

(d) No Unit shall be used for other than housing and the related common purposes incidental to residential use and occupancy, including the limited use of a Unit as a home office, but such use shall not involve regular or frequent visits by clients, customers, associates, patients or delivery personnel.

(e) No radio, television or satellite dish or aerial shall be attached to or hung from any Common Element unless approved by the Association and intended by the Association to be available to all Members.

5.4 Hazardous Use and Waste. Nothing shall be done to or kept in any Unit or the Common Elements that will increase any rate of insurance maintained with respect to the Condominium without the prior written consent of the Board. No Unit Owner or Occupant shall permit anything to be done to or kept in his Unit or the Common Elements that will result in the cancellation of insurance maintained with respect to the Condominium, or that would be in violation of any law, or that will result in the commitment of waste (damage, abuse, or destruction) to or in his Unit or the Common Elements.

5.5 Alterations of Common Elements. No Unit Owner or Occupant shall alter, construct anything upon, or remove anything from, the Common Elements, or paint, decorate, landscape or adorn any portion of the Common Elements, without the prior written consent of the Board.

5.6 Leases. Any lease of a Unit shall be in writing, and shall be subject to this Declaration and the Bylaws, and any failure of the lessee to comply with the terms of such documents shall be a default under the lease.

5.7 Rules and Regulations. In addition to the foregoing restrictions, conditions and covenants concerning the use of the Condominium, reasonable rules and regulations not in conflict therewith and supplementary thereto may be promulgated and amended from time to time by the Board or the Association, as more fully provided in the Bylaws. Copies of the rules and regulations with respect to the Common Elements shall be furnished by the Association to each Member. Changes to the rules and regulations with respect to such Common Elements shall be conspicuously posted prior to the time when the same shall become effective and copies thereof shall be furnished to each Member upon request.

5.8 Shrubbery. No Unit Owner shall plant or permit to remain on the Property any type of hedge, shrubbery or other plantings, except with the prior written permission of the Board.

5.9 Signs. Except for such signs as may be posted by the Declarant for promotional or marketing purposes or by the Association, no signs of any character shall be erected, posted or displayed upon, in, from or about the Common Elements without the prior written approval of the Board of Directors. The foregoing provisions of this paragraph shall not apply to a Mortgagee in possession of a Unit as a result of a foreclosure, judicial sale or a proceeding in lieu of foreclosure. Any signage on Units including "For Rent" or "For Sale" shall not be erected, posted or displayed upon, in, from or about a Unit without the prior written approval of the Board and shall be in compliance with the size and style in the guidelines adopted by the Board. Any "standard" Realtor's signs must be in compliance with those guidelines adopted by the Board.

5.10 Right of Access. By acceptance of the deed of conveyance of a Unit, each Member thereby grants a right of access to the Unit, as provided by this Declaration, the Board of Directors or the Managing Agent, or any other person authorized by the Board or the Managing Agent, or any group of the foregoing, for purpose of enabling the exercise and discharge of their respective powers and responsibilities including without limitation making inspections, correcting any condition originating in the Unit or in a Common Element to which access is obtained through the Unit and threatening the Common Elements or another Unit, performing installations, improvements, alterations or repairs to the mechanical or electrical systems which are a part of the Common Elements and any other Common Elements located in the Unit or elsewhere in the Property; provided, however, that requests for entry are made in advance and that any such entry is at a time reasonably convenient to the Member. In case of an emergency, such right of entry shall be immediate, whether or not the Member is present. Each Member shall provide a working copy of all keys to the Unit to the Association.

5.11 Conveyance by Owners, Notice Required. The right of an Owner to convey or sell the Unit shall not be subject to any right of approval, disapproval, first refusal or similar restriction by the Association or the Board, or anyone acting on their behalf. An Owner intending to convey a Unit shall deliver a written notice to the Board, at least two weeks before closing, specifying (a) the Unit being sold; (b) the name and address of the purchaser, of the closing agent, and interest, and (c) the estimated closing date. The Board shall have the right to notify the purchaser and the closing agent of the amount of unpaid assessments and charges outstanding against

the Unit, whether or not such information is requested. Promptly upon the conveyance of a Unit, the new Unit Owner shall notify the association of the date of the conveyance and the Unit Owner's name and address.

5.12 Restrictions, Conditions and Covenants To Run With Land. Each Unit Owner and Occupant shall be subject to all restrictions, conditions and covenants of this Declaration, and all such restrictions, conditions and covenants shall be deemed to be covenants running with the land, and shall bind every person having any interest in the Property, and shall inure to the benefit of every Unit Owner.

ARTICLE VI

Assessments

6.1 Payment of Association Expenses. Each Unit Owner shall pay the Common Expenses as applicable, assessed by the Board of Directors of the Association. No Unit Owner may be exempted from liability for the assessment for such Expenses by reason of waiver of the use or enjoyment of any of the Common Elements or by abandonment of the Unit. No Unit Owner shall be liable for the payment of any part of such Expenses assessed against the Unit subsequent to date of recordation of a conveyance by such Unit Owner in fee of such Unit. Prior to or at the time of such conveyance, all liens, unpaid charges and assessments shall be paid in full and discharged. The purchaser of a Unit shall be jointly and severally liable with the selling Unit Owner for all such unpaid assessments up to the time of such recordation, without prejudice to the purchaser's right to recover from the selling Unit Owner amounts paid by the purchaser therefore; provided, however, that any such purchaser shall be entitled to a statement setting forth the amount of the unpaid assessments against the selling Unit Owner within ten (10) days following a written request therefore to the Board of Directors or Managing Agent and such purchaser shall not be liable for, nor shall the Unit conveyed be subject to a lien for any unpaid assessments in excess of the amount therein set forth.

6.2 Collection of Assessments. The Board of Directors, or the Managing Agent at the request of the Board of Directors, shall take prompt action to collect any assessments for Common Expenses as applicable, due from any Unit Owner which remain unpaid for more than thirty (30) days from the due date thereof. If a Unit Owner is delinquent for more than sixty (60) days, the Board of Directors may file a lien against the Unit. Any assessment, or installment thereof, not paid within ten (10) days after due shall accrue a late charge in the amount of Seventy Five Dollars (\$75.00), or such other amount as may be established from time to time by the Board of Directors, or actual costs of collection, whichever is more.

6.3 Foreclosure of Liens. Liens may be foreclosed upon and the Unit sold, in which event, the Association shall be entitled to recover the cost of all collection including but not limited to: reasonable attorney fees, trustee fees, service fees and cost of advertising.

6.4 Statement of Assessments. Within ten (10) days from the receipt of a written request therefor, the Board of Directors shall provide any Unit Owner, contract purchaser or Mortgagee with a written statement of all unpaid assessments for Common Expenses and other amounts owed by a Member as applicable, due from such Unit owner. The Board of Directors may impose a reasonable charge for the preparation of such statement to cover the cost of preparation.

ARTICLE III
Management, Maintenance, Repairs
Replacements, Alterations and Improvements

7.1 Common Elements.

(a) By the Association. The management, replacement, maintenance, repair, alteration, and improvement of the Common Elements shall be the responsibility of the Board, and, subject to the provisions of Section 7.2 hereof, the cost thereof shall be a Common Expense to the extent not paid by Unit Owners pursuant to Section 7.1(b) hereof. All damage caused to a Unit by any work on or to the Common Elements done by or for the Association shall be repaired by the Association, and the cost thereof shall be a Common Expense.

(b) By Unit Owners. Each Unit Owner shall pay all costs to repair and replace all portions of the Common Elements that may become damaged or destroyed by reason of his intentional acts or the intentional acts of any Occupant, guest or invitee of their Unit. Such payment shall be made upon demand made by the Board.

7.2 Common Expenses Associated with Limited Common Elements or Benefiting Less Than All Units.

(a) Any Common Expense associated with the maintenance, repair, or replacement of a Limited Common Element shall be assessed against the Unit, or in equal shares to the Units, to which such Limited Common Element was allocated at the time the expense was incurred.

(b) In addition, the Association may assess any Common Expense benefiting less than all of the Units against the Units benefited in proportion to their Common Expense liability.

(c) The cleanliness and orderliness of the Limited Common Elements shall be the responsibility of the individual Unit Owner or Unit Owners having the right to the use and enjoyment of such Limited Common Elements, but the responsibility for maintenance, painting, repair and replacement, together with control over the exterior decoration of the Limited Common Elements visible from any other Unit or from the Common Elements, shall remain with the Association. Notwithstanding any other provisions of this Declaration, or any provision of the Bylaws or the Act, the obligation for maintenance, repair, or replacement of any portions of the heating, ventilating, and air conditioning systems that are Limited Common Elements shall be the sole responsibility of the Unit Owners to which such Limited Common Elements are allocated. Electricity and any other utility service to each Unit shall be individually metered and each Unit Owner shall pay all charges assessed against his Unit for the use of such services.

7.3 Units. Each Unit Owner shall maintain their Unit at all times in a good and clean condition, and repair and replace, at their expense, all portions of their Unit. All doors within the walls enclosing a Unit shall be a part of that Unit; however, responsibility for maintenance and replacement of any exterior doors shall be the responsibility of the Association and not the Unit Owner. Replacement of any broken glass in a window that is part of a Unit shall be the sole responsibility and expense of the Unit Owner of that Unit. Each Unit Owner shall perform his responsibilities in such manner as not to unreasonably disturb other Occupants; shall promptly report to the Board, or its agents, any defect or need for repairs the responsibility for which is that of the Association; and, to the extent that such expense is not covered by the proceeds of insurance carried by the Association, shall pay all costs to repair and replace any portion of another Unit that has become damaged or destroyed by reason of his own acts or omissions, or the acts or omissions of any Occupant of his Unit. Such payment shall be made upon demand by the Unit Owners of such other Unit. Nothing herein contained shall modify any waiver by insurance companies of rights of subrogation.

7.4 Right of Entry.

(a) By the Association. The Association, and any person authorized by the Association, may enter any Unit or any of the Limited Common Elements in case of any emergency or dangerous conditions or situation originating in or threatening that Unit or any of the Limited Common Elements. The Association, and

any person authorized by the Association, after reasonable notice to a Unit Owner or Occupant, may enter that Unit or any of the Limited Common Elements for the purposes of performing any of the Association's powers under the Act, this Declaration or the Bylaws with respect to that or any other Unit, any Limited Common Elements, or the Common Elements. Notwithstanding Section 7.4, the Association shall be responsible for the repair of any damage caused by the Association or its authorized person to the entered Unit, and the cost thereof shall be a Common Expense. All such entries shall be made and done so as to cause as little inconvenience as possible to the Unit Owner and Occupant of the entered Unit or any portion of the Limited Common Elements allocated to the Unit Owner.

(b) By Unit Owners. Each Unit Owner and Occupant shall allow other Unit Owners and Occupants, and their representatives, to enter their Unit or Limited Common Elements allocated to his Unit, when reasonably necessary for the purpose of altering, maintaining, repairing or replacing the Unit or performing the duties and obligations under the act, this Declaration or the Bylaws, of the Unit Owner or Occupant making such entry, provided that requests for entry are made in advance and that such entry is at a time convenient to the Unit Owner or Occupant whose Unit or Limited Common Element is to be entered. In case of an emergency or dangerous condition or situation, such right of entry shall be immediate. Notwithstanding Section 8.4, the person making such entry shall be responsible for repair of any damage caused by such person to the entered Unit or Limited Common Element.

7.5 Partitioning. The interest in the Common Elements allocated to each Unit shall not be conveyed, devised, encumbered, partitioned, or otherwise included with the Unit even though such interest are not expressly mentioned or described in the instrument conveying, devising, encumbering or otherwise dealing with such Unit. Any conveyance, mortgage, or other instrument which purports to grant any right, interest, or lien in, to or upon the Unit, shall be null, void, and of no effect insofar as the same purports to affect any interest in a Unit's allocated interest in the Common Elements unless the same purports to convey, devise, encumber or otherwise deal with the entire Unit. Any instrument conveying, devising, encumbering or otherwise dealing with any Unit, which describes said Unit by the identifying number assigned thereto in the Plans and herein without limitation or exception shall be deemed and construed to affect the entire Unit and its allocated interest in the Common Elements. Nothing herein contained shall be construed as limiting or preventing ownership of any Unit and its allocated interest in the Common Elements by more than one person or entity as tenants in common, joint tenants, or as tenants by the entirety or any other form by law permitted.

7.6 Conveyance of or Lien Against Common Elements. For such time as the Property remains subject to this Declaration and to the provisions of the Act, no conveyances of or security interests or liens of any nature shall arise or be created against the Common Elements unless the Unit Owners holding at least eighty percent (80%) of the total allocated interests in the Common Elements agree to that action; provided, however, all the owners of Units to which any Limited Common Element is allocated must agree in order to convey that Limited Common Element or subject it to a security interest or lien. Every agreement for the performance of labor or the furnishing of materials to the Common Elements, whether oral or in writing, must provide that it is subject to the provisions of this declaration and that the right to file a mechanics' lien or other similar lien by reason of labor performed or material furnished is subordinated to this Declaration and to the lien of assessments for Common Expenses provided for in Article V of this Declaration. Provided, however, nothing in this Section shall be construed to limit the right of any Unit Owner to convey or to encumber his allocated interest in the Common Elements as an appurtenance to and in connection with the conveyance or mortgaging of his Unit.

7.7 Nature of Interest in Unit. Every Unit, together with its allocated interest in the Common Elements, shall for all purposes be, and it is hereby declared to be, and to constitute a separate parcel of real property, and the Unit Owner thereof shall be entitled to the exclusive fee simple ownership and possession of his Unit, subject only to the covenants, conditions, restrictions, easements, uses, limitations, obligations, rules, regulations, resolutions and decisions adopted pursuant hereto and as may be contained herein and in the accompanying Bylaws and in the minutes of the Executive Board of the Association.

ARTICLE VIII

Insurance

8.1 Casualty Insurance. The Association shall maintain, to the extent available, casualty insurance upon the Property in the name of, and the proceeds thereof shall be payable to, the Association, as trustee for all Unit Owners and First Mortgagees as their interests may appear, and be disbursed pursuant to the Act. Such insurance shall be in an amount equal to one hundred percent (100%) full insurable value of the Property on a replacement cost basis exclusive of land, excavations, foundations and other items normally excluded from property policies, and shall insure against such risks and contain such provisions as the Board from time to time shall determine, but at a minimum shall conform in all respects to the requirements of the Act, and shall provide that, notwithstanding any provision thereof that gives the insurer an election to restore damage in lieu of making a cash settlement, such option

shall not be exercisable if such restoration is prohibited pursuant to Section 47C-3-113(h) of the Act.

8.2 Public Liability Insurance. The Association shall maintain public liability insurance for the benefit of the Unit Owners, Occupants, the Association, the Board, the managing agent, if any, the Declarant, and their respective officers, directors, agents and employees, in such amounts and with such coverage as shall be determined by the Board; provided that the public liability insurance shall be for at least Five Hundred Thousand Dollars (\$500,000.00) per person and One Million Dollars (\$1,000,000.00) per occurrence for death, bodily injury and property damage. Such insurance shall comply in all respects to the requirements of the Act and shall contain a severability-of-interest endorsement precluding the insurer from denying liability because of negligent acts of any insured; insure all of such benefited parties against such liability arising out of or in connection with the use, ownership or maintenance of the Common Elements, and the streets, sidewalks, and public spaces adjoining the Condominium; and insure the Association, the Board, the manager, if any, and their respective officers, directors, agents and employees against such liability arising out of or in connection with the use or maintenance of the Units.

8.3 Insurance Unavailable. If the insurance described in Section 8.1 or 8.2 is not reasonably available, the Association shall promptly cause notice of such fact to be hand-delivered or sent prepaid by United States mail to all Unit Owners and First Mortgagees.

8.4 Insurance Trustee; Power of Attorney. The named insured under the policies referred to Section 8.1 and Section 8.2 shall be the Association, as trustee for each of the Owners in accordance with their respective interests in the Common Elements. The insurance proceeds may be made payable to any trustee with which the Association enters into an insurance trust agreement, or any successor trustee, who shall have exclusive authority to negotiate losses under the policies. Subject to the provisions of Section 8.8, the proceeds must be disbursed first for the repair or restoration of the damaged property, and Unit Owners and lien holders are not entitled to receive payment of any portion of the proceeds unless there is a surplus of proceeds after the property has been completely repaired or restored or the Condominium is terminated. Each Owner appoints the Association, any insurance trustee, or successor trustee designated by the Association, as attorney-in-fact for the purpose of purchasing and maintaining such insurance, including the collection and appropriate disposition of the proceeds thereof, the negotiation of losses and execution of releases of liability, the execution of all documents, and the performance of all other acts necessary to accomplish such purposes.

8.5 Additional Policy Provisions. The insurance obtained pursuant to Section 8.1 and Section 8.2 shall contain the following provisions and limitations:

(a) Each Unit Owner is an insured person under the policy with respect to liability arising out of the Owner's interest in the Common Elements or membership in the Association.

(b) Such policies shall not provide for contribution by or assessment against Mortgagees or become a lien on the property superior to the lien of the first mortgage.

(c) If, at the time of loss under the policy, there is other insurance in the name of the Unit Owner covering the same risk covered by the policy, the Association's policy provides primary insurance.

(d) Coverage shall not be prejudiced by (a) any act, omission, or neglect of the Owners of Units when such act or neglect is not within the scope of the Owner's authority on behalf of the Association, or (b) failure of the Association to comply with any warranty or condition with regard to any portion of the premises over which the Association has no control.

(e) A waiver of subrogation by the insurer as to any and all claims against the Association, the Owner of any Unit, and/or their respective agents, members of Owner's household, employees, or lessees, and of any defenses based upon co-insurance or upon invalidity arising from the acts of the insured.

(f) A standard mortgagee clause shall:

(i) Provide that any reference to a mortgagee in the policy shall mean and include all Mortgagees of any Unit or Unit lease or sublease in their respective order of preference, whether or not named therein.

(ii) Provide that such insurance as to the interest of any Mortgagee shall not be invalidated by any act or neglect of the Board of Owners or any persons under any of them

(iii) Waive any provision invalidating such mortgage clause by reason of the failure of any Mortgagee to notify the insurer of any hazardous use or vacancy, any requirement that the Mortgagee pay any premium thereon, and any contribution clause, and

(iv) Provide that, without affecting any protection afforded by such mortgagee clause, any proceeds payable under such policy shall be payable to the Association or the insurance trustee.

8.6 Fidelity Insurance. The required fidelity insurance shall afford coverage to protect against dishonest acts on the part of officers, directors, trustees, and employees of the Association and all other persons who handle or are responsible for handling funds of or administered by the Association. The Managing Agent shall maintain fidelity insurance for its officers, employees and agents who handle or who are responsible for handling funds of, or funds administered by the Association. All such fidelity insurance shall name the Association as an obligee and shall be not less than the estimated maximum of funds, including reserve funds, in custody of the Association at any time during the term of each policy, but, in no event, shall the aggregate amount of insurance be less than three months' aggregate Assessments. The policy shall contain waivers of any defense based upon the exclusion of persons who serve without compensation from any definition of "employee" or similar expression.

8.7 Owners' Individual Insurance. An insurance policy issued to the Association does not prevent an Owner from obtaining insurance for the Owner's own benefit.

8.8 Use of Insurance Proceeds. Any portion of the Condominium for which insurance is required under this Article which is damaged or destroyed shall be repaired or replaced promptly by the Association pursuant to Article IX unless: (a) the Condominium is terminated, (b) repair or replacement would be illegal under any state or local health or safety statute or ordinance, or (c) Owners holding at least 80% of the votes in the Association, including every Owner of a Unit or Limited Common Element which will not be rebuilt, and the Owners other than the Declarant holding at least 80% of the votes in the Association excluding votes held by the Declarant vote not to rebuild. The cost of repair or replacement in excess of the deductible, insurance proceeds and available reserves is a Common Expense. The Unit Owner shall be responsible for the amount of the deductible applicable to damage or loss within the Owner's Unit. If all of the damaged or destroyed portions of the Condominium are not repaired or replaced, (a) the insurance proceeds attributable to the damaged Common Elements shall be used to restore the damaged area to a condition compatible with the remainder of the Condominium, (b) the insurance proceeds attributable to Units, Limited Common Elements which are not rebuilt shall be distributed to the Owners of those Units, the Owners of the Units to which those Limited Common Elements are allocated or to lien holders, as their interests may appear, and (c) the remainder of the proceeds shall be distributed to all the Unit

Owners or lien holders, as their interests may appear, in proportion to the interest in Common Elements of each Unit. If the Unit Owners vote not to rebuild any Unit, that Unit's allocated Interests are automatically reallocated upon the vote as if the Unit had been condemned under Article X and the Association promptly shall prepare, execute, and record an amendment to this Declaration reflecting the reallocations. Notwithstanding the provisions of this Section, Article XI governs the distribution of insurance proceeds if the Condominium is terminated.

ARTICLE IX **Casualty Damage**

9.1 Casualty Damage. If all or any part of the Property shall be damaged or destroyed, the same shall be repaired or replaced unless: (1) the Condominium is terminated, (2) repair or replacement would be illegal under any State or local health or safety statute or ordinance, or (3) the Unit Owners elect not to rebuild or replace by an eighty percent (80%) vote. All proceeds of insurance shall be used and applied in accordance with the provisions of Section 47C-3-113(e) and (h) of the Act.

ARTICLE X **Condemnation**

10.1 Condemnation. In the event of a taking by eminent domain, or by a conveyance in lieu thereof, of all or any part of the Property, the awards paid on account thereof shall be applied in accordance with Section 47C-1-107 of the Act.

ARTICLE XI **Termination**

11.1 Termination. The Condominium may be terminated only in strict compliance with Section 47C-2-118 of the Act.

ARTICLE XII **Amendment**

12.1 Amendment. Except as is otherwise specifically authorized herein, this Declaration may only be amended by: (i) a vote of at least seventy-five percent (75%) of total eligible votes of the Owners, together with the consent of the Mortgagees, as applicable, of each of those Owner's Units, cast in person or by proxy at a meeting duly held in accordance with the provisions of the Bylaws, and (ii) the consent of at least fifty one percent (51%) of the Mortgagees who have filed requests for notice pursuant to Article XIII, Section 13.5. Any amendment which amends or alters the percentage of allocated interests of any Unit in the Common Elements, increases the number of Units, Changes the boundaries of any Unit, changes the use to which any

Unit is restricted, or modifies the terms of this Article XII shall require the written approval of all Owners, together with the consent of all their respective Mortgagees, unless such amendment affects less than all Units, is approved by the Owners and Mortgagees of the affected Units, and is specifically authorized elsewhere in this Declaration or in the Bylaws. No amendment to this Declaration shall be effective until executed on behalf of the Association by an officer designated for that purpose and recorded in the office of the Register of Deeds of Dare County, North Carolina. No amendment to this Declaration shall be adopted or passed which shall impair or prejudice the rights and priorities of any Mortgagee without the written consent of such Mortgagee. During the Declarant Control Period, no amendment to this Declaration shall be effective without the written consent of Declarant and the Mortgagees as applicable.

ARTICLE XIV
Rights of First Mortgagees

The following provisions shall take precedence over all other provisions of this Declaration and the Bylaws:

13.1 Availability of Condominium Documents, Books, Records and Financial Statements. The Association shall, upon request, make available for inspection by Unit Owners and the First Mortgagees, current copies of the Declaration, the Bylaws, other rules and regulations governing the Condominium and the books, records and financial statements of the Association. The Association shall provide a financial statement for the preceding fiscal year if requested in writing by a First Mortgagee. The Association shall, upon request, make available for inspection by prospective purchasers of Units, current copies of the Declaration, Bylaws, the Rules and Regulations governing the Condominium, and the most recent annual financial statement.

13.2 Successors' Personal Obligation for Delinquent Assessments. The personal obligation for assessments which are delinquent at the time of transfer of a Unit shall not pass to the successors in title or interest to said Unit unless said delinquent assessments are expressly assumed by them.

13.3 Rights of Action. The Association and any aggrieved Unit Owner shall have the right of action against Unit Owners and any aggrieved Unit Owners shall have a right of action against the Association for failure to comply with the provisions of this Declaration, the Bylaws and the Rules and Regulations, and decisions of the Association made pursuant to authority granted to the Association in this Declaration and the Bylaws.

13.4 Rights to Notice. If any First Mortgagee has served written notice upon the Association of its desire to receive notices under this section by certified mail, return receipt requested, addressed to the Association and sent to its current address, identifying the First Mortgage that it holds, which notice designates the place to which notices are to be given by the association to such party, then such party shall have the right to receive from the Association prompt written notice of the following:

(a) Default under any of the terms and provisions of the Declaration and the Bylaws by any Unit Owner owning a Unit encumbered by a First Mortgage held by such party.

(b) Any loss or damage to or condemnation or taking of the Common Elements or any loss or damage to or condemnation or taking of a Unit encumbered by a First Mortgage held by such First Mortgagee.

(c) Any lapse, cancellation, or material modification of any insurance policy or fidelity bond maintained by the Association. Any proposed action by the Association, the Board or the Unit Owners, which under the terms of the Declaration or Bylaws requires the consent of all or any portion of the First Mortgagees.

13.5 Assessments. Assessments shall be due and payable in installments as determined by the Board. An assessment shall be deemed levied against a Unit upon the giving of notice by the Board to a member of the Association who is a Unit Owner of that Unit. Unit Owners shall have no obligation to pay assessments until an assessment is levied. Assessments will begin at such time as the Board elects.

13.6 Rights of First Mortgagee: Insurance Proceeds or Condemnation Awards. With respect to First Mortgages held by or for the benefit of First Mortgagees, no provision of this Declaration or the Bylaws shall be deemed to give a Unit Owner, or any other party, priority over any rights of a First Mortgagee pursuant to its First Mortgage on said Unit Owner's Unit, in the case of a distribution to said Unit Owner of insurance proceeds or condemnation awards for losses to or a taking of Units and/or Common Elements.

ARTICLE XIV
Notices

14.1 Notices. Whenever notices are required to be sent under this Declaration, the same may be delivered to Unit Owners by mail at their place of residence. Notices to the Declarant shall be mailed to:

Daniel D. Khoury, Esquire
Vandeventer Black LLP
PO Box 2
Kitty Hawk, NC 27949

ARTICLE XV
Enforcement, Mediation, Arbitration

15.1 Actions by Owners. If the Association, Board of Directors, or any Owner shall fail to perform any obligation imposed upon them by the Condominium Instruments, and such failure shall cause an immediate risk of substantial economic loss to any Owner, or shall significantly jeopardize the physical condition of the Property, or any part thereof, then any Owner shall have the right to perform such obligation and to exercise any authority otherwise delegated to the Association, or the Board, or any other Owner, necessary to perform such obligation. If an obligation so performed was the obligation of an Owner, the reasonable cost of performing such obligation shall be immediately due and payable from the Owner who has failed to perform the obligation to the Owner who performed it. If an obligation so performed was the obligation of the Association or the Board of Directors, the reasonable cost of performing such obligation shall be a Common Expense.

15.2 Mediation. Each Owner, by accepting a deed to a Unit, agrees that the Declarant, any Owner or the Association may require that any unresolved matter among the Owners or before the Board of Directors or before the Association or the Declarant be submitted to non-binding mediation, prior to pursuing any other remedies. The fees and expenses of mediation shall be paid by the participants and shall not be a Common Expense unless all owners so agree in writing.

15.3 Arbitration. Each Owner, by accepting a deed to a Unit, agrees that any Owner or Association may require that any unresolved matter between the Owners, or before the Board of Directors or before the Association be submitted to binding arbitration pursuant to the Uniform Arbitration Act set forth in N.C.G.S §1-567.1 et seq. as the same shall be amended from time to time. The fees and expenses of

arbitration shall be paid as set forth in the award and shall not be a Common Expense unless all Owners so agree in writing.

15.4 Civil Suit. Any Owner may also bring a civil action against any other Owner, or against the Association, or against the Board of Directors, or any one or more or them to enforce any obligation imposed hereunder.

ARTICLE XVI

General Provisions

16.1 Conflict with the Act; Severability. Should any of the terms, conditions, provisions, paragraphs, or clauses of this Declaration conflict with any provisions of the Act, the provisions of the Act shall control unless the Act permits the Declaration to override the Act, in which event the Declaration shall control. The invalidity of any covenant, restriction, condition, limitation, provision, paragraph or clause of this Declaration, or of any part of the same, or the application thereof to any person or circumstance, shall not impair or affect in any manner the validity, enforceability or effect of the rest of this Declaration, or the application of any such covenant, restriction, condition, limitation, provision, paragraph or clause to any other person or circumstances.

16.2 Interpretation of Declaration. Whenever appropriate singular may be read as plural, plural may be read as singular, and the masculine gender may be read as the feminine or neuter gender. Compound words beginning with the prefix "here" shall refer to this entire Declaration and not merely to the part in which they appear.

16.3 Captions. The captions herein are only for convenience and reference and do not define, limit or describe the scope of this Declaration, or the intent of any provision.

16.4 Exhibits. Exhibits: A, B, C, D, E and F attached hereto are hereby made a part hereof.

16.5 Invalidity. The invalidity of any provision of this Declaration shall not be deemed to impair or affect in any manner the validity or enforceability or effect of the remainder of this Declaration, and in such event, all of the other provisions of this Declaration shall continue in full force and effect as if such invalid provision had never been included herein.

16.6 Waiver. No provision of this Declaration shall be deemed to have been abrogated or waived by reason of any failure to enforce the same, irrespective of the number of violations or breaches which may occur.

16.7 Law Controlling. This Declaration shall be construed and controlled by and under the laws of the State of North Carolina.

16.8 Liberal Construction. The provisions of this Declaration shall be liberally construed to effectuate its purpose of creating a uniform plan of condominium ownership as provided in the North Carolina Condominium Act. Specific language shall control over general language. Throughout this Declaration wherever appropriate, the singular shall include the plural and the masculine gender the feminine or neuter as the context permits or requires.

IN WITNESS WHEREOF, the undersigned have executed this Declaration as of the day and year first above written.

DECLARANT:

Patricia Hughes, LLC

By: MPF INVESTMENT COMPANY, LP
a Maryland Limited Partnership, Managing
Member

By: MPF, LLC, its General Partner

By: _____(SEAL)
Patricia A. Fabrikant, its Manager

Randy Hughes, LLC

By: _____(SEAL)
Randy Saunders, Managing Member

Joseph Hughes, LLC

By: _____(SEAL)
Joseph S. Bracewell, III, Managing
Member

Consent of Mortgagee

First South Bank, being the Beneficiary under that certain Deed of Trust from Declarant to Thomas A. Vann, Trustee, recorded in Book 1582 at Page 12 of the Dare County, North Carolina Public Registry, conveying the property described on **Exhibit "A"** attached to this Declaration, hereby (a) consents to the recordation of this Declaration and the imposition of the provisions hereof and the provisions of the North Carolina Condominium Act to the real property described in **Exhibit "A"** (the "Property"); and (b) subordinates the lien and operation of the Deed of Trust to this Declaration and the provisions contained herein. In the event of a foreclosure of the Deed of trust, or a transfer of any portion of the Property in lieu of foreclosure, Beneficiary and Trustee agree that the Purchaser at any such foreclosure or the transferee under any such deed in lieu of foreclosure shall take title to the Property together with and subject to all the terms and conditions of this Declaration. The execution of this Consent of Mortgagee by the Beneficiary shall not be deemed or construed to have the effect of creating between the Beneficiary and Declarant the relationship of partnership or of joint venture, nor shall it be deemed to impose upon the Beneficiary any of the liabilities, duties or obligations of the Declarant under this Declaration. Beneficiary executes this Consent of Mortgagee solely for the purposes set forth above. The Trustee also joins in and executes this Consent as Trustee for the purposes set forth above.

TRUSTEE:

By: _____(SEAL)
Thomas A. Vann

BENEFICIARY:

First South Bank

By: _____(SEAL)
Russell Lay
_____ Vice President

STATE OF NORTH CAROLINA
DARE COUNTY

I, _____, a Notary Public for the State and County aforesaid, certify that Patricia A. Fabrikant, personally came before me this day and acknowledged that she is the Manager of MPF, LLC, a Maryland limited liability company (the "Company"), General Partner of MPF Investment Company, LP, a Maryland limited partnership ("Partnership"), Managing Member of Patricia Hughes, LLC ("Limited Liability Company") and that by authority duly given and (a) as the act of the Company and (b) as the act of the Partnership and (c) as the act of the Limited Liability Company, the foregoing instrument was signed in the name of the Company and the name of the Partnership by the Partnership's General Partner and in the name of the Limited Liability Company by the Managing Member.

Witness my hand and official seal this the ____ day of _____, 2004

Notary Public

My commission expires:

STATE OF NORTH CAROLINA
DARE COUNTY

I, _____, a Notary Public for the State and County aforesaid do hereby certify that Randy M. Saunders personally came before me this day and acknowledged that he is the Managing Member of Randy Hughes, LLC ("Limited Liability Company") and that by authority duly given and as the act of the

Limited Liability Company, the foregoing instrument was signed in the name of the Limited Liability Company by the Managing Member.

Witness my hand and official seal this the _____ day of _____, 2004.

Notary Public

My commission expires:

STATE OF NORTH CAROLINA
DARE COUNTY

I, _____, a Notary Public for the State and County aforesaid do hereby certify that Joseph S. Bracewell, III, personally came before me this day and acknowledged that he is the Managing Member of Joseph Hughes, LLC ("Limited Liability Company") and that by authority duly given and as the act of the Limited Liability Company, the foregoing instrument was signed in the name of the Limited Liability Company by the Managing Member.

Witness my hand and official seal this the _____ day of _____, 2004.

Notary Public

My commission expires:

STATE OF NORTH CAROLINA
COUNTY OF _____

I _____, a Notary Public for the County and State aforesaid, do hereby certify that Thomas A. Vann, Trustee, personally appeared before me this day and acknowledged the execution of the foregoing instrument.

Witness my hand and official stamp and seal this the _____ day of _____, 2004.

Notary Public

My commission expires:

STATE OF NORTH CAROLINA
DARE COUNTY

I, _____, a Notary Public for the County and State aforesaid, do hereby certify that Russell Lay personally appeared before me this day and acknowledged that he is _____ President of First South Bank, a national banking association, and that by authority duly given and as the act of the association the foregoing instrument was signed in its name by him as its _____ President.

Witness my hand and official seal this the ____ day of _____, 2004.

Notary Public

My commission expires:

Beginning at an existing iron rod situated in the Western margin of the 60 foot right-of-way of North Carolina Highway 12 also known as Virginia Dare Trail, said point of beginning also marking the Northeast corner of Coastal Retreat Condominium as more particularly described in Unit Ownership File 5, Slides: 314-315 in the Public Registry of Dare County, North Carolina; thence proceeding for the point and place of beginning along the Northern line of Coastal Retreat Condominium South 62 deg. 32 min. 26 sec. West 193.23 feet to an iron pipe; thence continuing South 62 deg. 32 min. 26 sec. West along the Northern property line of the Banks Condominiums a distance of 481.87 feet to an iron pipe; thence cornering North 15 deg. 37 min. 22 sec. West along the Eastern line of that property now or formerly owned by J & G Partnership and known as the "Flying Fish Restaurant" a distance of 145.60 feet to an iron pipe; thence cornering North 62 deg. 23 min. 22 sec. East on the Southern property line of portions of Lots: 15, 14, 13, 12, 11, 10 and 5.32' of Lot 9 of Section II of Lake Drive Development a distance of 275.75 feet to an iron rod; thence cornering South 16 deg. 01 min. 55 sec. East 76.12 feet to an iron rod; thence cornering North 62 deg. 31 min. 06 sec. East along the Southern line of that property now or formerly owned by Grace Land Holdings, L.L.C. a distance of 397.59 feet to an iron rod situated in the Western margin of the 60 foot right-of-way of Virginia Dare Trail; thence cornering South 16 deg. 43 min. 14 sec. East along the Western margin of the 60 foot right-of-way of Virginia Dare Trail a distance of 70 feet to the point and place of beginning, same containing 1.53 acres as more particularly described on that map or plat captioned "Hughes Retreat, L.L.C., Kill Devil Hills, North Carolina, Boundary Survey" dated October 17, 2003 prepared by Michael W. Robinson, R.L.S. of Bissell Professional Group, to which reference is made for a more particular description.

EXHIBIT B

To Declaration

BY - L A W S

OF

HUGHES RETREAT CONDOMINIUM ASSOCIATION, INC.

**ARTICLE I
NAME, PURPOSE AND APPLICABILITY**

1.1 Name. The name of this non-profit, non-stock membership corporation shall be HUGHES RETREAT CONDOMINIUM ASSOCIATION, INC., hereinafter referred to as "the Association".

1.2 Purpose. The purpose of the Association shall be to administer, manage, and operate the condominium property, in accordance with the Unit Ownership Act, the Non-profit Corporation Act of North Carolina, this Declaration, and the Articles of Incorporation and these By-Laws, as may be amended from time to time. The Association shall not engage in any activities other than those directly related to administration of the condominium property and the Unit Owners' responsibility with respect to the same.

1.3 Applicability. These By-Laws are applicable to the property known as HUGHES RETREAT CONDOMINIUM, as such property is described on **Exhibit "A"** attached to that certain Declaration of HUGHES RETREAT CONDOMINIUM. These By-Laws are binding on all present and future Owners, tenants, guests, residents, or other persons occupying or using the facilities of such condominium property. The mere acquisition, rental, or act of occupancy of any part of the condominium property will signify that these By-Laws are accepted, ratified, and will be complied with. The provisions of the Declaration of Condominium for HUGHES RETREAT CONDOMINIUM regarding the governing and administration of the Association are incorporated herein by reference.

The acceptance of a deed of conveyance or the entering into of a lease or the act of occupancy of a Unit shall constitute an agreement that these Bylaws (and any rules and regulations made pursuant hereto) and the provisions of the Declaration, as they may be amended from time to time, are accepted, ratified and will be complied with.

**ARTICLE II
DEFINITIONS**

2.1 Definitions The definition of words contained in Article I of the Declaration shall apply to those words and terms as used in these By-Laws.

ARTICLE III
OFFICES, REGISTERED AGENT, SEAL, FISCAL YEAR

3.1 Principal Office, Registered Office. The principal office of the Association shall be located at 6 Juniper Trail, Kitty Hawk, North Carolina 27949 or such other places as the Board of Directors may designate from time to time.

3.2 Registered Agent. The initial Registered Agent for the Unit Owners for matters incident to the condominium property and the initial Registered Agent for the Association is Daniel D. Khoury, whose address is Post Office Box 2, Kitty Hawk, North Carolina 27949. The individual serving as Registered Agent may be removed from office and replaced at any time by vote of the Board of Directors of the Association.

3.3 Seal. The seal of the Association shall contain the name of the Association, the word "Seal", and such other words and figures as desired by the Board. When obtained, the seal shall be impressed in the margin of the minutes of the initial meeting of the Board of Directors.

3.4 Fiscal Year. The fiscal year of the Association shall be January 1 through December 31.

ARTICLE IV
MEMBERSHIP

4.1 Qualification. Membership in the association shall be confined to and consist of the Unit Owners. Membership shall be appurtenant to and inseparable from unit ownership. No Unit Owners shall be required to pay any consideration whatsoever for his membership. Membership in the Association shall inure automatically to Unit Owners upon acquisition of the fee simple title, whether encumbered or not, to any one or more units. The date of registration of the conveyance in the Dare County Registry of the unit in question shall govern the date of ownership of each particular unit. However, in the case of death, the transfer of ownership shall occur on the date of death in the case of intestacy, or date of probate of the will in the case of testacy. Until a decedent's will is probated, the Association may rely on the presumption that a deceased Owner died intestate.

4.2 Annual Meeting. There shall be a regular annual meeting of the Unit Owners held each year during the same month of each succeeding year, for the purpose of electing members of the Board and for the transaction of such other business as may be properly brought before the meeting. A meeting so called shall be designated and treated for all purposes as the annual meeting.

4.3 Place of Meetings. Meetings of the Association shall be held in Dare County, North Carolina at such place as may be designated by the Board of Directors in the Notice of the Meeting.

4.4 Special Meetings. The President shall call a special meeting of the Association: (i) if so directed by resolution of the Board of Directors; or (ii) upon a petition signed and presented to the Secretary by Unit Owners owning not less than fifty one percent (51%) of the aggregate Common Element Interests. The signatures on a petition requesting a special meeting shall be valid for a period of one hundred eighty (180) days after the date of the first such

signatures. Such resolution of petition must (1) specify the time and place at which the meeting is to be held, (2) specify a date on which the meeting is to be held, (3) specify the purposes of which the meeting is to be held, and (4) be delivered to the Secretary. The notice of any special meeting shall state the time, place and purpose thereof. No business shall be transacted at a special meeting except as stated in the notice.

4.5 Notice of Meetings. Written or printed notice stating the place, day and hour of any meeting shall be delivered or mailed not less than twenty-one (21) days nor more than fifty (50) days prior to the date thereof, either personally or by fax or postage prepaid mail, at the direction of the Board or Unit Owners calling the meeting, to each person entitled to vote at such meeting, and, to all First Mortgagees so requesting under the provisions of Article XIII of the Declaration, who may request a representative to attend the meeting of Unit Owners. Any Unit Owner may waive written notice and accept notice by telephone, in person or any other method of communication.

Notice given to any one tenant-in-common, tenant by the entirety or other joint owner of a Unit shall be deemed valid notice to all joint owners of such Unit.

The notice of any meeting must state the time and place of the meeting and the items on the agenda, including the general nature of any proposed amendment to the Declaration or these Bylaws, and budget changes, and any proposal to remove Board members or officers.

When a meeting is adjourned for less than thirty (30) days in any one adjournment, it is not necessary to give any notice of the adjourned meeting, other than by announcement at the meeting at which the adjournment is effective.

4.6 Quorum; Adjournment if No Quorum. Except as otherwise provided in these Bylaws, the presence in person or by proxy of Members representing fifty-one percent (51%) or more of the aggregate Common Element Interests shall constitute a quorum at all meetings of the Association. If at any meeting of the Association a quorum is not present, Unit Owners of a majority of the Common Element Interests who are present at such meeting in person or by proxy may: (i) recess the meeting to such date, time and place as such Members may agree not more than forty-eight (48) hours after the time the original meeting was called, whereupon the Secretary shall make reasonable efforts to notify Members of such date, time and place.

4.7 Voting.

(A) The total votes in the Association are twelve (12) with each Unit having one vote. The votes allocated to the unit may be cast by the Unit Owner of that unit. When there is more than one Unit Owner of a unit, the vote for that Unit shall be cast as they shall determine. The vote allocated to a unit shall not be split but shall be voted as a single whole. If there is more than one Unit Owner of a unit and said Unit Owners cannot agree on how to vote for that unit, such vote shall be cast, and the dispute shall be resolved by arbitration.

(B) Except where a greater number is required by the Condominium Act, the Declaration or these By-Laws, a Majority of the Unit Owners is required to adopt decisions at any meeting of the Association.

EXHIBIT E

To Declaration

Parking Spaces Assigned to Units as Limited Common Elements

| Parking Space Number | Unit Number |
|-----------------------------|--------------------|
| 1 & 2 | 303 |
| 3 | 103 |
| 4 | 204 |
| 5 | 203 |
| 6 | 304 |
| 7 | 301 |
| 8 | 302 |
| 9 | 201 |
| 10 | 202 |
| 11 | 101 |
| 12 | 102 |
| 13 | 104 |
| 14 | 104 |
| 15 | 103 |
| 16 | 204 |
| 17 | 203 |
| 18 | 304 |
| 19 | Handicap |
| 20 | Handicap |
| 21 | 301 |
| 22 | 302 |
| 23 | 201 |
| 24 | 202 |
| 25 | 101 |
| 26 | 102 |
| 27-36 | Visitor Parking |
| 37-40 | * |

***Reserved as an easement in perpetuity by the Declarant which use shall be designated by the Declarant and presently designated for the benefit of the John Yancey Hotel.**

EXHIBIT F

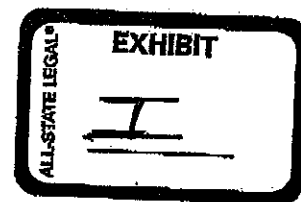
To Declaration

Liens, Defects and Encumbrances

1. Terms, conditions and restrictions of this Declaration, the Bylaws, the Plans, including any rules and regulations that may hereafter be promulgated by the Declarant has amended from time to time.
2. Unrecorded easements, discrepancies or conflicts in boundary lines, shortages in area and encroachments which an accurate and complete survey would disclose, including easements and encroachments, if any, shown on the Plat and Plans.
3. Easements described in Article III of this Declaration including, but not limited to,
 4. Easements in favor of the appropriate utility companies to serve the Property and all appurtenances thereto;
 - (a) easements in favor of the Association and to such persons as authorized by the Association for utility installations within the walls of the Units;
 - (b) an easement in favor of the Declarant, the Association, appropriate utility, sewage disposal and service companies and governmental agencies and authorities for such service lines and equipment as may be necessary or desirable over the Units and Common Elements to serve any portion of the Property;
 - (c) easements reserved by the Declarant through the Common Elements as reasonably necessary for discharging its obligations under this Declaration and completion of construction of the improvements in the Condominium;
 - (d) an easement in favor of the Association, a Unit Owner, the Executive Board or any other person as permitted under the Declaration and Bylaws to inspect, maintain, repair and replace the Common Elements;
 - (e) an easement for the encroachment of improvements upon any Unit or the Common Elements;
 - (f) the right of the Executive Board of the Association to grant easements encumbering the Common Elements for utility purposes and other purposes the Board deems for the benefit of the Condominium;
 - (g) Drainfield Easement in Book 1037 at Page 32 of the Dare County Registry as set forth in Section 3.8 of the Declaration; and

(h) Access Easement and Reservation of Parking Spaces to Declarant as set forth in Section 3.6 of the Declaration.

5. All general services and utility easements.
6. Use restrictions set forth in Article V of the Declaration including but not limited to the restriction of the Units to residential purposes.
7. Future assessments as provided in Article VI of the Declaration.



Hughes Retreat Condominium Association

Proposed Budget 2005

INCOME

| | | |
|---------------------------|----|-----------|
| 300 Assessment Income (1) | \$ | 47,400.00 |
| 310 Interest Income | \$ | - |
| 390 Other Income | \$ | - |

INCOME \$ 47,400.00

GROSS PROFIT (LOSS) \$ 47,400.00
=====

EXPENSES

| | | |
|--------------------------|----|-----------|
| 400 Electricity | \$ | 1,200.00 |
| 401 Elevator | \$ | 3,500.00 |
| 405 Grounds Maintenance | \$ | 1,500.00 |
| 406 General Maintenance | \$ | 250.00 |
| 407 Sewage | \$ | 1,800.00 |
| 408 Water | \$ | 1,000.00 |
| 409 Pool | \$ | 7,000.00 |
| 410 Insurance | \$ | 20,000.00 |
| 415 Legal and Accounting | \$ | 500.00 |
| 420 Management Fee | \$ | 4,200.00 |
| 430 Miscellaneous | \$ | 450.00 |
| 435 Replacement Reserves | \$ | 6,000.00 |

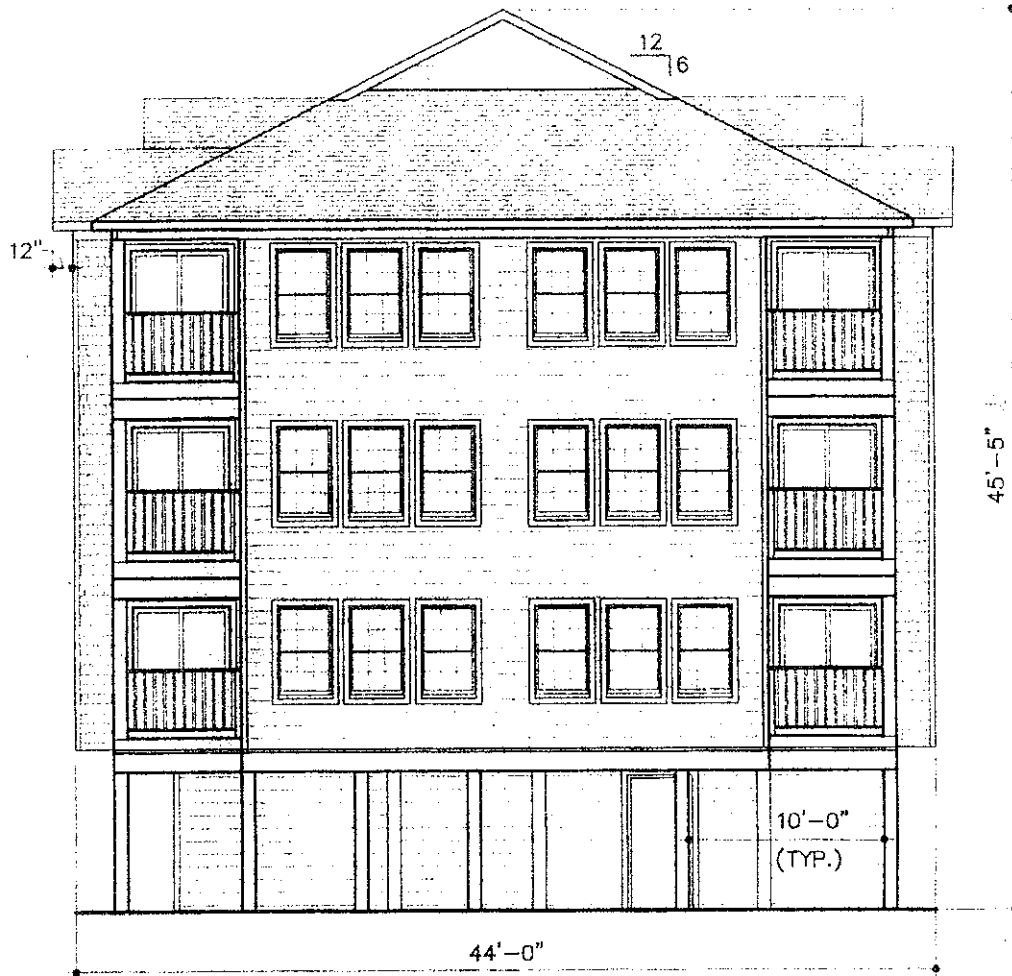
will be changed

EXPENSES \$ 47,400.00

NET PROFIT (LOSS) \$ -
=====

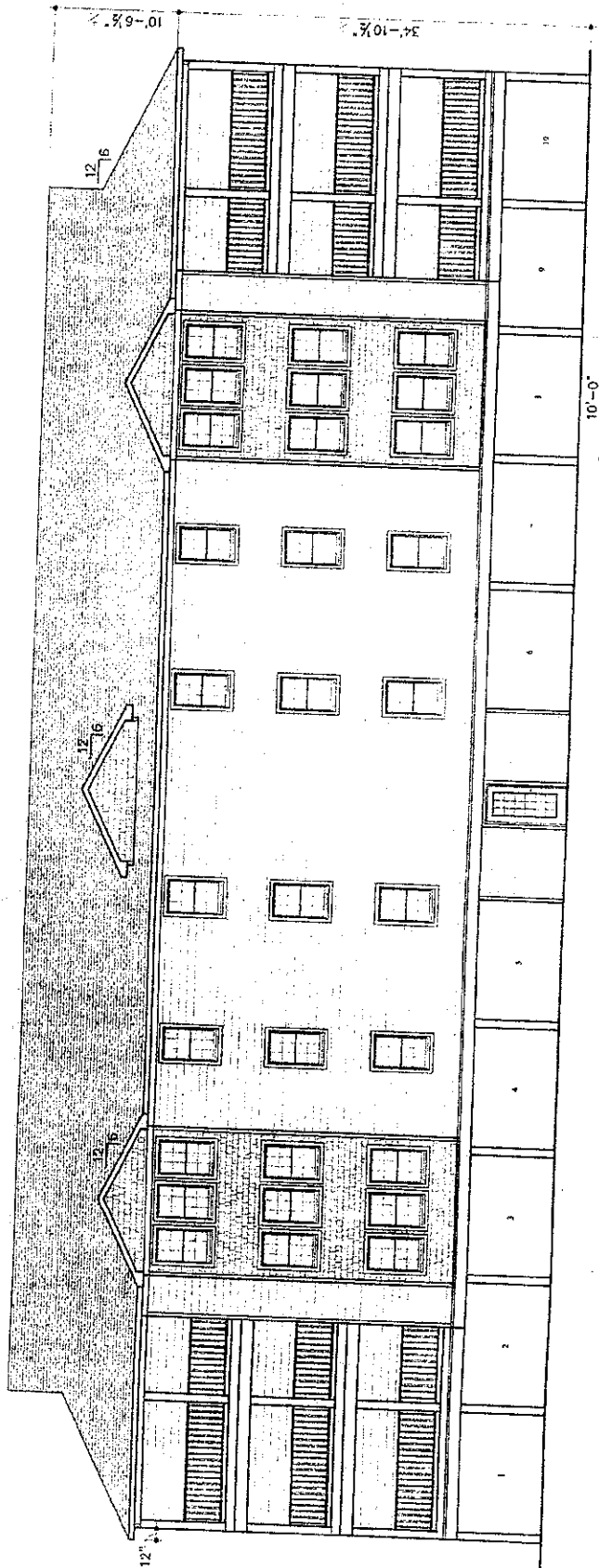
1. Income based on 12 Units at \$330 per month.

Exhibit G



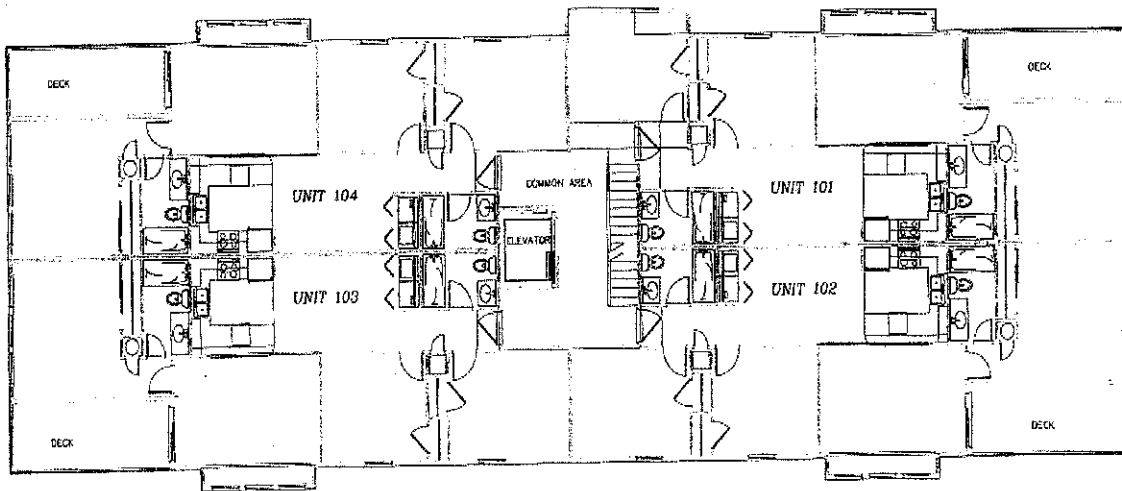
2 EAST ELEVATION
1/8" = 1'-0"

Exhibit G

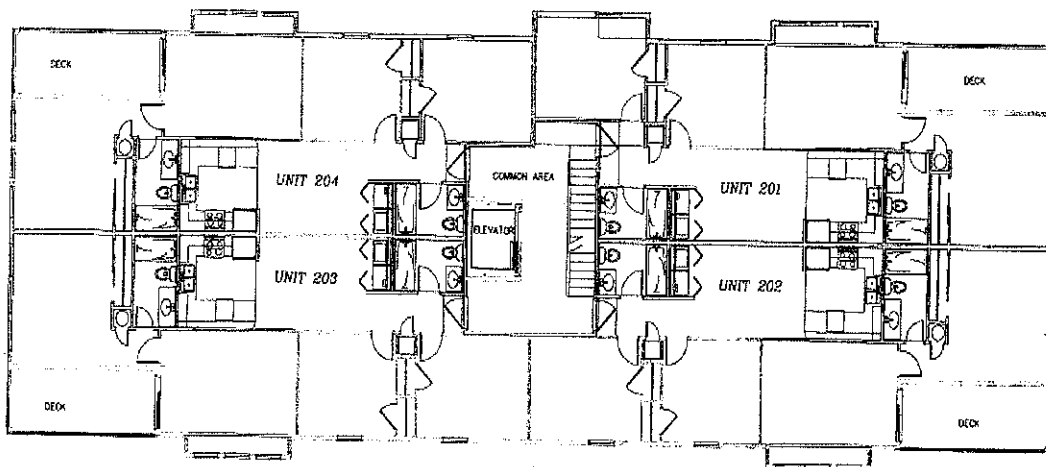


1 SOUTH ELEVATION
1/8" = 1' 0"

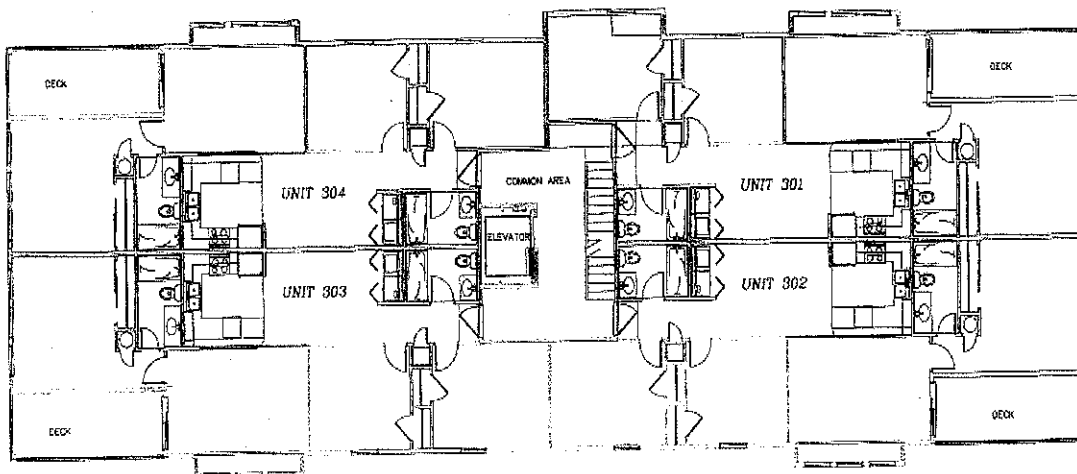
Exhibit G



FIRST FLOOR PLAN



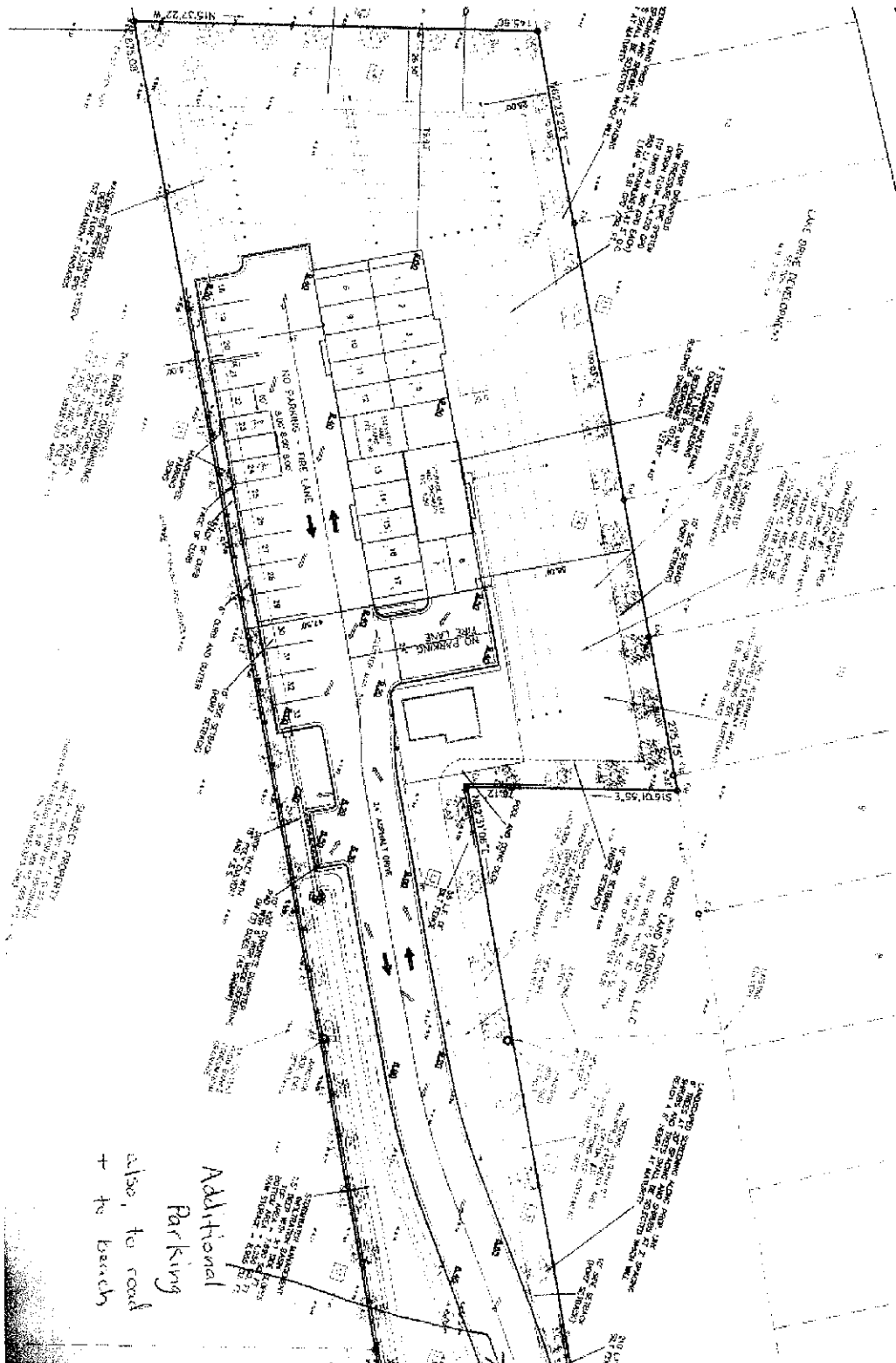
SECOND FLOOR PLAN



THIRD FLOOR PLAN

GRAPHIC SCALE

Exhibit H



Additional
Parking
also, to road
+ to benches

Hughes Retreat Condominium Association
Annual Meeting Sign In
9/9/2005

| | | |
|-------|--------------------------------|--|
| HR101 | William Heslin | <i>William Heslin</i> |
| HR102 | M&L Partnership | |
| HR103 | Jeffrey & Christine Salmon | <i>Jeffrey J. Salmon</i> |
| HR104 | Paul and Christy Albus | <i>Paul + Christy Albus</i> |
| HR201 | Edward R. & Sharon C. Lenz | |
| HR202 | Irwin & Gaby Heller | <i>Irwin Heller / Gaby Heller</i> |
| HR203 | Dennis G. & Karen E. McKendry | <i>Karen E. McKendry</i> |
| HR204 | James J. & Sara C. Singer | <i>Sara Singer</i> |
| HR301 | Michael P. & Jennifer J Mullen | <i>Jennifer Mullen</i> |
| HR302 | Bernard S. & Debra W. Hofler | <i>Bernard S + Debra W. Hofler, Joffler</i> |
| HR303 | George M. & Linda H. Cosier | <i>George Cosier</i> |
| HR304 | Kenneth M. & Susan A. Gwitz | <i>Ken Gwitz</i> |

Hughes Retreat Condominium Association
Annual Meeting
9/10/05, 10:00 a.m.
Agenda

Call to Order

Introduction of Members

Management Report

Election of Directors

Review of Budget, Financial Statements

Items from Members

Adjournment

Hughes Retreat Condominium Association
Management Report
9/10/05

Village Realty is the management company for the Hughes Retreat Condominium Association. We took over management of the Association in late May of 2005. As the management company we are responsible for the maintenance of the common areas of the condominium. We collect dues, pay bills, oversee the pool technicians, and hire subcontractors and maintenance providers as needed for cleaning and repairs. A description of the services provided by our company is attached and labeled, "Exhibit A". This is an excerpt from our management contract. Individual owners are responsible for the interiors of their units and their contents.

At this meeting the owners will elect a five member Board of Directors. These Board members will serve a one-year term. At the 2006 Annual Meeting Board members will be elected to three-year terms. This Board is responsible for overseeing the management of the Association. The Board approves the operating budget, sets policies regarding use and maintenance of the common areas, and oversees the Property Manager. The specific duties and responsibilities of the Board are spelled out in the By-Laws of the Association.

The Association is funded by your quarterly dues, and covers expenses associated with the common areas of the buildings and grounds. Currently dues are \$990 per quarter. We have drafted a proposed budget for 2006 and have recommended that these dues be raised to \$352.50 per month or \$1057.50 per quarter. This will allow the association to meet all of its operating expenses and also put away a sufficient amount in a Replacement Reserve account for replacement of capital items in the future. A copy of the proposed budget and reserve study are included in your packets.

If you have any questions during the year please do not hesitate to contact us. My e-mail is emilylewis@villagerealtyobx.com and my assistant, Donna Catron's e-mail is donnacatron@villagerealtyobx.com. We can be reached at 800-548-9688 ext. 307 (Emily) or ext. 332 (Donna). Either of us will be happy to help any way that we can.

EXHIBIT A

SERVICES

A. OFFICE ADMINISTRATION: Village Realty and Management Services, Inc. will provide the Association with the equivalent of its own office and office staff. Residents will have a number to call when they have problems, questions, suggestions, etc. All board records will be maintained, and meeting notices, board minutes and newsletters will be typed and prepared for distribution.

B. FINANCIAL SERVICES: Village Realty and Management Services, Inc. will provide the Association with full financial assistance. We will collect dues, deposit funds, pay bills, keep the association books and prepare monthly financial statements in a timely fashion. When necessary, we will send notices to delinquent homeowners following the policy and guidelines established by the Board of Directors. An annual budget will be developed and monitored on a monthly basis. We will provide advice regarding depository institutions and the investment of reserves to maximize the rate of return. We will assist in the selection of an insurance carrier for Liability, Physical Damage and Workers Compensation coverage. All employees of Village Realty and Management Services, Inc. are bonded.

C. FACILITIES MANAGEMENT: Village Realty and Management Services, Inc. will relieve the Board of Directors of day-to-day concern regarding common areas. We will conduct regular walking tours of the property, and supervise the work of contractors and maintenance personnel. This includes grounds maintenance, greenways, and sign maintenance. We will hire and dispatch contractors or recommend the number and type of employees you should have.

D. EXECUTIVE SERVICES: In addition to the day-to-day activities which must run smoothly if homeowners are to be satisfied, the success of an association is dependent on management that looks ahead and plans for the future. We will advise on, and make recommendations for changes to the By-Laws and Rules and Regulations. We will guide the long-range planning function for preventive maintenance, repairs, and the level of long-term replacement reserves that will be required. We will make recommendations concerning purchasing, contractors, accounting and legal services. We will also make arrangements to provide emergency repair services with a 24 hour a day answering service for homeowners to call when emergencies exist. A member of our management team will attend all meetings of the Board of Directors and committees (as requested).

Hughes Retreat Condo. Assoc.
P.O. Box 1807
Nags Head NC 27959

AS OF 08/31/05

DOLLARS

ASSETS

CURRENT ASSETS

| | | |
|-----|---------------------|---------|
| 100 | Cash | 6868.60 |
| 110 | Accounts Receivable | 4453.42 |

| | | |
|--------|-------|----------|
| ASSETS | TOTAL | 11322.02 |
| | | ===== |

EQUITY

OWNER EQUITY

| | | |
|-----|----------------------------|----------|
| 299 | Current Dues Over Expenses | 11322.02 |
|-----|----------------------------|----------|

| | | |
|--------|-------|----------|
| EQUITY | TOTAL | 11322.02 |
| | | ----- |

| | | |
|------------------------------|--|----------|
| TOTAL LIABILITIES AND EQUITY | | 11322.02 |
| | | ===== |

INCOME STATEMENT
(CONSOLIDATED)
Hughes Retreat Condo. Assoc.
P.O. Box 1807
Nags Head NC 27959

| IN DOLLARS | ACTUAL 01/01/05 TO 08/31/05 | BUDGET 01/01/05 TO 12/31/05 | VARIANCES DOLLARS PERCENT | |
|--------------------------|-----------------------------------|-----------------------------------|------------------------------|------------------|
| INCOME | | | | |
| INCOME | | | | |
| 300 Assessment Income | 20357.87 | 47520.00 | -27162.13 | -57.16 |
| 350 Insurance Assessment | 17627.00 | 0.00 | 17627.00 | **.** |
| | ----- | ----- | ----- | ----- |
| INCOME | TOTAL | 37984.87 | 47520.00 | -9535.13 -20.07 |
| | | ----- | ----- | ----- |
| GROSS PROFIT (LOSS) | | 37984.87 | 47520.00 | -9535.13 -20.07 |
| | | ===== | ===== | ===== |
| EXPENSES | | | | |
| EXPENSES | | | | |
| 100 Electricity | 2582.72 | 1200.00 | 1382.72 | 115.23 |
| 405 Grounds Maintenance | 0.00 | 1500.00 | -1500.00 | -100.00 |
| 406 General Maintenance | 0.00 | 250.00 | -250.00 | -100.00 |
| 407 Sewage | 1729.00 | 1800.00 | -71.00 | -3.94 |
| 408 Elevator | 0.00 | 2160.00 | -2160.00 | -100.00 |
| 409 Pool Maintenance | 3500.00 | 8000.00 | -4500.00 | -56.25 |
| 410 Insurance | 16239.69 | 20000.00 | -3760.31 | -18.80 |
| 415 Legal and Accounting | 0.00 | 600.00 | -600.00 | -100.00 |
| 417 Phone | 537.14 | 0.00 | 537.14 | **.** |
| 420 Management Fee | 1100.00 | 4200.00 | -3100.00 | -73.81 |
| 430 Miscellaneous | 974.30 | 710.00 | 264.30 | 37.23 |
| 435 Replacement Reserve | 0.00 | 7100.00 | -7100.00 | -100.00 |
| | ----- | ----- | ----- | ----- |
| EXPENSES | TOTAL | 26662.85 | 47520.00 | -20857.15 -43.89 |
| | | ----- | ----- | ----- |
| NET PROFIT (LOSS) | | 11322.02 | 0.00 | 11322.02 **.** |
| | | ===== | ===== | ===== |

| Trandate | Srce | Cust | Description | Reference | Amount |
|----------|------|------------------|-----------------------|-------------------|----------|
| ACCOUNT | 400 | Electricity | | OPENING BALANCE = | 0.00 |
| 05/19/05 | G | | Dominion NC Power | CK 100 | 500.00 |
| 05/23/05 | G | | Dominion NC Power | CK 103 | 683.91 |
| 06/07/05 | G | | Dominion NC Power | CK 107 | 568.31 |
| 07/26/05 | G | | Dominion NC Power | CK 1004 | 550.13 |
| 08/24/05 | G | | Dominion NC Power | CK 1015 | 280.37 |
| | | | | NET CHANGE = | 2582.72 |
| ACCOUNT | 400 | Electricity | | ENDING BALANCE = | 2582.72 |
| ACCOUNT | 407 | Sewage | | OPENING BALANCE = | 0.00 |
| 05/23/05 | G | | Envirotech | CK 102 | 585.00 |
| 05/27/05 | G | | Enviro-tech | CK 105 | 390.00 |
| 07/26/05 | G | | Enviro-Tech | CK 1005 | 24.00 |
| 07/29/05 | G | | Enviro-Tech | CK 1008 | 390.00 |
| 08/24/05 | G | | Enviro-Tech | CK 1013 | 340.00 |
| | | | | NET CHANGE = | 1729.00 |
| ACCOUNT | 407 | Sewage | | ENDING BALANCE = | 1729.00 |
| ACCOUNT | 409 | Pool Maintenance | | OPENING BALANCE = | 0.00 |
| 06/28/05 | G | | J&K Quality Pool, Inc | CK 109 | 750.00 |
| 07/15/05 | G | | J&K Quality Pool | CK 1002 | 1250.00 |
| 07/27/05 | G | | J&K Quality Pool | CK 1006 | 500.00 |
| 08/12/05 | G | | J&K Quality Pool | CK 1011 | 500.00 |
| 08/26/05 | G | | J&K Quality Pool | CK 1018 | 500.00 |
| | | | | NET CHANGE = | 3500.00 |
| ACCOUNT | 409 | Pool Maintenance | | ENDING BALANCE = | 3500.00 |
| ACCOUNT | 410 | Insurance | | OPENING BALANCE = | 0.00 |
| 07/28/05 | G | | Randy M. Saunders | CK 1007 | 13409.20 |
| 08/03/05 | G | | St. Paul Travelers | CK 1009 | 96.00 |
| 08/26/05 | G | | Randy M. Saunders | CK 1017 | 2734.49 |
| | | | | NET CHANGE = | 16239.69 |
| ACCOUNT | 410 | Insurance | | ENDING BALANCE = | 16239.69 |
| ACCOUNT | 417 | Phone | | OPENING BALANCE = | 0.00 |
| 05/19/05 | G | | Sprint | CK 101 | 221.82 |
| 05/27/05 | G | | Sprint | CK 106 | 219.62 |
| 06/22/05 | G | | Sprint | CK 108 | 95.70 |

| Trandate | Srcce | Cust | Description | Reference | Amount |
|----------|-------|----------------|--------------------------------|-------------------|---------|
| ACCOUNT | 417 | Phone | | (Continued) | |
| | | | | NET CHANGE = | 537.14 |
| ACCOUNT | 417 | Phone | | ENDING BALANCE = | 537.14 |
| ACCOUNT | 420 | Management Fee | | OPENING BALANCE = | 0.00 |
| 05/26/05 | G | | Village Realty & Mngt Services | CK 104 | 400.00 |
| 07/25/05 | G | | Village Realty & Mgmt Svcs Inc | CK 1003 | 350.00 |
| 08/24/05 | G | | Village Realty & Mgmt Svcs Inc | CK 1016 | 350.00 |
| | | | | NET CHANGE = | 1100.00 |
| ACCOUNT | 420 | Management Fee | | ENDING BALANCE = | 1100.00 |
| ACCOUNT | 430 | Miscellaneous | | OPENING BALANCE = | 0.00 |
| 06/30/05 | G | | Bank Analysis Fee | JE 1 | 13.00 |
| 07/06/05 | G | | Check/Deposit Order | JE 2 | 186.30 |
| 07/13/05 | G | | Williams Fire Sprinkler Insp. | CK 1001 | 300.00 |
| 08/24/05 | G | | Village Realty & Mgmt Svcs Inc | CK 1014 | 475.00 |
| | | | | NET CHANGE = | 974.30 |
| ACCOUNT | 430 | Miscellaneous | | ENDING BALANCE = | 974.30 |