

By Laws

of

**Waterwood Community
Association, Inc.**

**Incorporated Under the Laws of
the State of Texas**

**Waterwood Estates
Orange County,
Texas**

By-Laws of the Waterwood Community Association, Inc. – Orange County,
Texas



Table of Contents

By-Laws of the Waterwood Community Association, Inc.

ARTICLE I - General		§4.06 Annual Report of Board of Directors	1 1
§1.01 Name	1	§4.07 Vacancies	1 1
§1.02 Objective	1	§4.08 Removal of Directors	1 2
§1.03 Area	1	§4.09 Association Documents	1 2
§1.05 Compliance	1	§4.10 Conflicts of Interest	1 2
§1.06 Affiliation	2	§4.11 Common or Interested Directors	1 2
§1.07 Limitations of Methods	2	§4.12 Compensation	1 2
§1.08 Composition of the Association	2	§4.13 Limitation of Liability	1 3
§1.09 Principal Office	2	ARTICLE V - Board of Directors Meetings	
§1.10 Definitions	2	§5.01 Place of Board of Directors Meetings	1 3
§1.11 Tax Status	3	§5.02 Attendance Requirement	1 3
ARTICLE II - Membership and Voting Rights		§5.03 Quorum of Directors	1 3
§2.01 Eligibility	3	§5.04 Annual Meeting of Directors	1 3
§2.02 Joint Owners	3	§5.05 Regular Meeting of Directors	1 4
§2.03 Voting Rights	3	§5.06 Special Meeting of Directors	1 4
§2.04 Cumulative Voting for Directors	4	§5.07 Open Meeting & Executive Session	1 4
§2.05 Relinquishment of Voting Rights	4	§5.08 Waiver of Notice	1 4
§2.06 Rights and Privileges	4	§5.09 Board Action Without Meeting	1 4
§2.07 Right of Notification	5	§5.10 Consent of Absentees	1 5
§2.08 Notice to New Members	5	§5.11 Entry of Notice	1 5
ARTICLE III - Membership Meetings		§5.12 Adjournment	1 5

Table of Contents

By-Laws of the Waterwood Community Association, Inc.

§3.01	Place of Membership Meetings	5	§5.13	Adjournment Notice	1 5
§3.02	Annual Meeting of Members	5	§5.14	Conduct of Meetings	1 5
§3.03	Special Meeting of Members	5	ARTICLE VI - Officers, Duties and Powers		
§3.04	Voting Lists	6	§6.01	Title and Appointment	1 5
§3.05	Qualification of Voters	6	§6.02	Removal of Officers	1 5
§3.06	Notice of Membership Meetings	6	§6.03	Vacancies	1 6
§3.07	Adjourned Meetings	6	§6.04	Power and Duties of Officers	1 6
§3.08	Waiver of Notice	7	§6.05	The President	1 6
§3.09	Entry of Notice	7	§6.06	The Vice President	1 6
§3.10	Proxies	7	§6.07	The Secretary	1 6
§3.11	Consent of Absentees	7	§6.08	The Treasurer	1 8
§3.12	Quorum of Members	7	ARTICLE VII - Executive Committee		
ARTICLE IV - Board of Directors			ARTICLE VIII - Designation of Committees		
§4.01	Board of Directors	7	§8.01	Appointment of Committees	1 9
§4.02	Number & Qualification of Directors	8	§8.02	Duties and Powers of Committees	2 0
§4.03	Annual Election and Term of Office	8	§8.03	Committee Chairmen and Members	2 0
§4.04	Powers and Duties of the Board	9	§8.04	Committee Meetings	2 0
§4.05	Fiduciary Responsibility	1 1	§8.05	Standing Committees	2 0
ARTICLE VIII - Continued			§13.05	Directors and Officers Insurance	2 9
§8.06	Ad Hoc or Special Committees	2 0	§13.06	Fidelity Bonding	3 0
ARTICLE IX - Standing Committees			§13.07	Board of Directors as Agent	3 0

Table of Contents

By-Laws of the Waterwood Community Association, Inc.

§9.01	Architectural Control Committee	2 0	ARTICLE XIV - Finances and Budget
§9.02	By-Laws and Rules Committee	2 1	§14.01 General Provisions 3 0
§9.03	Communications Committee	2 1	§14.02 Fiscal Year 3 0
§9.04	Covenants Committee	2 1	§14.03 General Fund 3 0
§9.05	Finance Committee	2 2	§14.04 Reserve Fund 3 1
§9.06	Grounds Committee	2 2	§14.05 Preparation & Approval of Budget 3 1
ARTICLE X - Assessments and Lien Rights			§14.06 Effect of Failure to Adopt Budget 3 2
§10.01	Annual Assessment	2 2	§14.07 Rejection of Budget 3 2
§10.02	Annual Assessment Increase	2 3	§14.08 Collection of Assessments 3 2
§10.03	Special Assessments	2 3	§14.09 Annual Audit 3 2
§10.04	Uniform Rate of Assessments	2 3	§14.10 Execution of Instruments 3 2
§10.05	Effect of Non-Payment	2 3	§14.11 Checks, Drafts, Demand for Money 3 2
§10.06	Lien Rights and Personal Obligation	2 3	§14.12 Contracts 3 2
§10.07	Subordination of Lien Rights	2 4	ARTICLE XV - Examination of Documents
§10.08	Exempt Property	2 4	§15.01 Examination of Books of Account 3 3
§10.09	Joint and Several Liability	2 4	§15.02 Examination of Minutes of Meeting 3 3
ARTICLE XI - Compliance, Default & Enforcement			§15.03 Examination of Voting Records 3 3
§11.01	General Provisions	2 4	§15.04 Examination of Assn. Documents 3 4
§11.02	Compliance and Relief	2 5	ARTICLE XVI - Parliamentary Authority
§11.03	Non-Qualifying Violation	2 6	ARTICLE XVII - Distribution of Assets

BYLAWS
of the
WATERWOOD COMMUNITY ASSOCIATION, INC.

ARTICLE I
General

§1.01 NAME

This organization shall be known as the Waterwood Community Association, Inc., hereinafter referred to as Association or WCA.

§1.02 OBJECTIVE

Waterwood Estates is a phased development in Orange County, Texas, planned incrementally to allow for flexibility in the development and sale of the project. Waterwood Estates was created and designed as a community which would provide an unusually attractive environment for single-family residences. While each of the phases within Waterwood Estates will follow its own development plan with its own restrictions embodied in a separate recorded Declaration, such declarations and the restrictions they contain have been incorporated in and supplemented by these By-Laws of the Association which govern all phases of Waterwood Estates. By providing and enforcing high standards for the improvement and maintenance of private and non-private Common Areas within Waterwood Estates, the Association intends to ensure that private property within Waterwood Estates will maintain and return maximum value for those who purchase it. The Association is a community association of the property owners in Waterwood Estates, which assumes overall responsibility for administration of the Waterwood Community Association and is organized to achieve the following objectives:

- A. To preserve the architectural integrity of Waterwood Estates.
- B. To enforce the covenants and deed restrictions of Waterwood Estates.
- C. To protect and maintain the common properties and services provided to property owners.
- D. To promote the community concept and protect the community's property values.
- E. To serve as a vehicle for community communication.

§1.03 AREA

The Association shall be organized to serve the community of property owners in Waterwood Estates located in Orange County, Texas.

§1.04 APPLICABILITY

Pursuant to the Articles of Incorporation, these By-Laws provide for the self government of the Property Owners of Waterwood Estates. All present and future Owners, lessees, tenants, or other interests in the Property, and any other persons who may use the Common Area of the Association in any manner are subject to these By-Laws and the Rules and Regulations of the Association.

§1.05 COMPLIANCE

Pursuant to the Articles of Incorporation, every Property Owner and all those entitled to membership in the Association shall comply with these By-Laws.

§1.06 AFFILIATION

The Association shall be a member of the Community Association Institute or any other similar association the Board of Directors may deem beneficial.

§1.07 LIMITATIONS OF METHODS

The Association, in its activities, shall be nonpartisan and nonsectarian, and shall take no part in or lend its influence to the election or appointment of any candidate for public office.

§1.08 COMPOSITION OF THE ASSOCIATION

All the Owners of Property contained in Waterwood Estates, acting as a group in accordance with the Declaration, the Articles of Incorporation and these By-Laws, shall constitute the Waterwood Community Association, who shall have the responsibility of administering the Association, establishing the means and methods of collecting assessments and charges, arranging for the management of the Association and performing all of the other acts that may be required or permitted to be performed by the Association pursuant to the Declaration, the Articles of Incorporation, and these By-Laws. Except as to those matters which the Declaration, the Articles of Incorporation, or these By-Laws specifically require to be performed by the vote of the Association, the administration of the foregoing responsibilities shall be performed by the Board of Directors more particularly set forth in Article IV.

§1.09 PRINCIPAL OFFICE

The principal office of the Association and the Board of Directors shall be located at Highway 87 South, Route 5, Post Office Box 1460-A, Orange, Texas 77630, or at such other place as may be designated from time to time by the Board of Directors.

§1.10 DEFINITIONS

- A. **"Assessment"** shall mean and refer to a regular or special assessment, as the case may be, imposed in accordance with the provisions of Article X.
- B. **"Association"** shall mean and refer to the Waterwood Community Association, a Texas Corporation, not-for-profit, its successors and assigns.
- C. **"Common Area"** shall mean and refer to all real property owned by the Association for the common use and enjoyment of the Owners.
- D. **"Declarant"** shall mean and refer to the developer, BLACKSHER DEVELOPMENT CORPORATION, a Texas Corporation, its successors and assigns if such successors or assigns should acquire more than one undeveloped Lot from the Declarant for the purpose of development.
- E. **"Declaration"** shall mean and refer to the Declaration or Declarations of Covenants, Conditions and Restrictions applicable to the Properties, or any part thereof, recorded in the Office of the County Clerk of Orange County, Texas.

- F. **"Lot"** shall mean and refer to any parcel of real property designated as a lot on any recorded subdivision plat within Waterwood Estates with the exception of the Common Area.
- G. **"Member"** shall mean and refer to those persons entitled to membership in the Association as provided in the Declaration, the Articles of Incorporation and these By-Laws.
- H. **"Owner(s)"** shall mean and refer to the record owner, whether one or more persons or entities, of equitable title (or legal title if same has merged) of any Lot, including contract sellers, but excluding those having such interest merely as security for the performance of an obligation. Except as stated otherwise herein, the term "Owner(s)" shall not include a lessee or tenant.
- I. **"Private Area"** shall mean and refer to any parcel of real property designated as a lot on any recorded subdivision plat within Waterwood Estates and intended for private use by its owner.
- J. **"Property or Properties"** shall mean and refer to that certain real property located in Waterwood Estates in Orange County, Texas.
- K. **"Residence"** shall mean and refer to the building, including any garage, carport or outbuilding, used for residential purposes.
- L. **"Rules and Regulations"** shall mean and refer to the rules and regulations as adopted by the Board of Directors as provided in Article XII.

§1.11 TAX STATUS

The Association is a not-for-profit corporation, organized under the laws of the State of Texas and pursuant to the Texas Non-Profit Corporation Act.

ARTICLE II Membership and Voting Rights

§2.01 ELIGIBILITY

Every owner of a Lot in Waterwood Estates, shall be a Member of the Association. Membership shall be appurtenant to and may not be separated from ownership of any Lot. The foregoing is not intended to include persons or entities who hold an interest merely as security for the performance of an obligation. No owner shall have more than one membership.

§2.02 JOINT OWNERS

In any case in which two or more persons share ownership of any Lot, regardless of the form of ownership, the responsibility of such persons to comply with the provisions of the Declaration, the Articles of Incorporation, these By-Laws, and the Rules and Regulations shall be joint and several. The vote or consent of any one or more of such persons shall constitute the vote or consent of the entire ownership interests, provided however, that in the event that such persons disagree among themselves as to the manner in which any vote or right of consent held by them shall be exercised with respect to a pending matter, any such person may deliver written notice of such disagreement to the Association and the vote or right of consent shall then be disregarded completely in determining the number of votes or consents with respect to such matter.

§2.03 VOTING RIGHTS

Members in good standing shall be entitled to the voting rights, described hereunder, on any matter submitted to a vote of the Members. In all Association matters requiring a vote, except for the election of directors, each Member shall be entitled to one (1) vote for each Lot owned by said Member. For the election of Directors, the Association shall have three (3) classes of voting membership, described as follows:

Class "A." Class "A" Members shall be all Owners of a Lots which have a Residence constructed on them, including the Declarant, and shall be entitled to three (3) votes for each Lot with a Residence. When more than one person holds an interest in any Lot and Residence, all such persons shall be Members. The vote of such Lot and Residence shall be exercised as they among themselves determine, but in no event shall more than three (3) votes be cast by a Class A Member.

Class "B." Class "B" Members shall be all Owners of vacant Lots, with the exception of the Declarant, and shall be entitled to one (1) vote for each vacant Lot. When more than one person holds an interest in any Lot, all such persons shall be Members. The vote of such Lot shall be exercised as they among themselves determine, but in no event shall more than one vote be cast by a Class B Member.

Class "C." The Class "C" Member shall be the Declarant, and shall be entitled to five (5) votes for each vacant Lot in an annexed phase that is under development.

§2.04 CUMULATIVE VOTING FOR DIRECTORS

Cumulative voting shall be allowed to protect minority interests by ensuring that a minority shall be able to have representation on the Board of Directors. Each Member shall be allowed to cast as many votes as his class of membership provides times the number of directors that are up for election. All votes can be cast for one nominee or votes can be distributed among all nominees, as the Member shall determine, up to the total number votes allowed a particular membership class. For example, if there are three positions on the Board of Directors to be filled by election, a Class A member is entitled to a total of nine (9) votes. Of these nine (9) votes, all could be cast for one nominee and zero (0) for the other two nominees, or six (6) votes for one nominee, two (2) votes for another nominee and one (1) vote for the remaining nominee.

§2.05 RELINQUISHMENT OF VOTING RIGHTS

The right to vote shall be lost due to delinquency in payment of the annual assessment or if a lien has been filed against the property by the Association. The annual assessment must be received by the Association Treasurer a minimum of ten (10) days prior to the annual membership meeting in order to have voting privileges at the meeting.

§2.06 RIGHTS AND PRIVILEGES

- A.** No Member shall have the right without prior approval of the Board of Directors to exercise any of the powers or to perform any of the acts by these By-Laws delegated to the Board of Directors as more fully provided in Article IV, §4.04 of these Bylaws.
- B.** Unless otherwise provided in the Declaration applicable to the Properties and subject to the Rules and Regulations adopted by the Board of Directors of this Association, each Member of this Association and his immediate family shall have the right to use and enjoy the Common Area and all facilities located thereon. Any Member may delegate his right of enjoyment to the Common Area and facilities to his tenants or contract purchasers who reside on his Lot. Such Member shall notify the Secretary in writing of the name of such delegee. The rights and privileges of such delegee are subject to suspension to the same extent as those of the Member.

- C. Any Member who is not living on the Lot to which such membership is appurtenant shall have the election as to whether such Member, his family, or persons living on the Lot to which such membership is appurtenant, shall be entitled to the right to use and enjoy, at his own risk, all of the facilities and property of this Association, but both said Member and said occupants may use said facilities only if said Member has given notice in writing to the Association of said Member's election to this effect. In any event, said Member shall retain his voting privileges and the obligation to pay all fees and assessments duly levied by this Association.
- D. The Membership rights and privileges, together with the voting rights, of any Member may be suspended by the Board of Directors for any period of time during which such Member is determined by the Board of Directors to be in breach of the Declaration covering the Properties or has not complied with his obligations imposed by these By-Laws or the Rules and Regulations adopted by the Board of Directors hereunder, provided, however, that no such suspension shall be effective until the Board of Directors gives to such Member the opportunity of a hearing before the Board of Directors, which hearing shall be held not sooner than ten (10) days following the delivery to such Member of written notice thereof. Any suspension imposed by reason of a violation of the Rules and Regulations shall continue until the Board of Directors reinstates the suspended Member.

§2.07 RIGHT OF NOTIFICATION

Any Member who plans to sell his Lot and or residence on said Lot shall be obligated to notify the Association of his intention. Immediately, upon the sale or transfer of ownership of any Lot and or residence on said Lot, the seller shall be obligated to notify the Association of any changes in his legal mailing address. In addition, the purchaser or transferee shall be obligated to notify the Association of his legal mailing address.

§2.08 NOTICE TO NEW MEMBERS

Whenever a sale or transfer of ownership occurs, the Association shall provide the new Owner with copies of all Association legal documents, including but not limited to the Declaration, the Articles of Incorporation, these By-Laws, Rules and Regulations of the Association and the Rules and Regulations of Architectural Control Committee.

ARTICLE III

Membership Meetings

§3.01 PLACE OF MEMBERSHIP MEETINGS

All meetings of Members, either annual or special, shall be held in Orange County, Texas or at such other locations in reasonable proximity to the Properties as may be designated in the notice of meeting.

§3.02 ANNUAL MEETING OF MEMBERS

- A. The annual meeting of Members of the Association shall be held the third Thursday in February of each year at the hour and place specified in the notice of meeting, for the purpose of electing Directors and transaction of any such business as may properly come before the meeting.

- B. If the election of Directors cannot be held on the day designated above for the annual meeting of Members, the Board of Directors shall cause the election to be held as soon thereafter as conveniently possible at a special meeting of the Members called for the purpose of holding such election.

§3.03 SPECIAL MEETING OF MEMBERS

- A. Special meetings of Members, for any purpose whatsoever, may be called at any time by the President or by three (3) or more Directors.
- B. Upon petition in writing of twenty percent (20.0%) of Members in good standing, the President shall call a special meeting, within ten (10) days of the date the request is made, to consider a specific subject.

§3.04 VOTING LISTS

The Secretary or officer having charge of the membership role book for the Association shall make, at least five (5) days before any meeting of Members, a complete list of the Members in good standing and entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of the Member and the number of the Lot owned, which list, for a period of five (5) days prior to such meeting, shall be kept on file by the Secretary or officer having charge of the membership role book, and shall be subject to inspection by any Member upon request. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any Member during the whole time of the meeting. The membership role book shall be prima-facie evidence as to who are Members entitled to examine such list or vote at any meeting of the Members as set forth herein.

§3.05 QUALIFICATION OF VOTERS

The only class of Members with voting privileges shall be property owners. To be entitled to vote at any meeting of the Members, payment of any assessments, and any late charges and interest due, must be made at least ten (10) days in advance of meeting where a vote is taken. Any Member who has an outstanding lien placed against his property by the Association is not entitled to vote.

§3.06 NOTICE OF MEMBERSHIP MEETINGS

- A. **Notice of Annual Meeting of Members.** A written or printed notice stating the place, day and hour of the annual meeting shall be mailed or otherwise delivered to the last recorded address of each Member of record in good standing and entitled to vote not less than fifteen (15) days nor more than thirty (30) days before the date of the annual meeting, by the direction of the President, Secretary or the officer or person calling the annual meeting.
- B. **Notice of Special Meeting of Members.** Upon receipt of a valid request for a special meeting, the President shall instruct the Secretary to issue a notice of special meeting, clearly stating the purpose or purposes for which the meeting is called, at least ten (10) days in advance of the meeting date to all Members of record. No business other than that specified in the notice of the special meeting shall be conducted or transacted at any special meeting.
- C. **Mailing of Meeting Notice.** If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the Member at his address as it appears on the membership role book of the Association, with postage thereon paid.

§3.07 ADJOURNED MEETINGS AND NOTICE THEREOF

Any membership meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the voting power present in person or represented by proxy, but in the absence of a quorum, no other business may be transacted at such meeting. When any membership meeting, either annual or special, is adjourned for thirty (30) or more days, notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid, it shall not be necessary to give any notice of adjournment or of the business to be transacted at an adjourned meeting, other than by an announcement at the meeting at which such adjournment is taken.

§3.08 WAIVER OF NOTICE

The presence of all the Members, in person or by proxy, at any meeting shall render the same a valid meeting, unless any Member shall, at the opening of such meeting, object to the holding of the same for noncompliance with the provisions of §3.07 of this Article III. Any meeting so held and attended by all Members without objection shall, notwithstanding the fact that no notice of meeting was given, or that the notice given was improper, be valid for all purposes, and at such meeting any general business may be transacted and any action taken.

§3.09 ENTRY OF NOTICE

Whenever any Member has been absent from any meeting of the membership, whether annual or special, an entry in the Minutes to the effect that notice has been duly given shall be conclusive and incontrovertible evidence that due notice of such meeting was given to such Member as required by law and the By-Laws of the Association.

§3.10 PROXIES

- A. A Member, in good standing, may vote in person, or by proxy executed in writing by the Member or his duly authorized attorney in-fact. Proxies shall be valid for a designated meeting of members or any adjournment thereof. No proxy shall be valid after thirty (30) days from the date of its execution unless otherwise provided in the proxy. Each proxy shall be revocable unless expressly provided therein to be irrevocable, and in no event shall it remain irrevocable for a period of more than thirty (30) days.
- B. A proxy form shall be mailed with the meeting notice. A proxy form submitted by a Member who then attends the meeting shall, upon request, be returned to such Member at the beginning of the meeting. All proxies must be in the hands of the Secretary of the Board of Directors before the meeting is called to order.

§3.11 CONSENT OF ABSENTEES

No defect in the calling or noticing of a meeting of Members will affect the validity of any action at the meeting if a quorum of Members was present.

§3.12 QUORUM OF MEMBERS

At any duly called meeting of Members of the Association, the presence of twenty-five percent (25.0%) of the Members in person or by proxy, shall constitute a quorum of Members for the transaction of business. The vote of a majority of the Members entitled to vote and thus

represented at a meeting at which a quorum is present shall be the act of the Members' meeting, unless a vote of a greater number is required by law, the Declaration, the Articles of Incorporation, or these By-Laws.

ARTICLE IV

Board of Directors

§4.01 BOARD OF DIRECTORS

The management and control of the assets, property, business affairs and common services of the Association shall be and hereby are vested in the Board of Directors.

§4.02 NUMBER AND QUALIFICATION OF DIRECTORS

The affairs of the Association shall be governed by a Board of Directors composed of nine (9) persons, each of whom shall be the sole Owner or Co-owner of record of a Lot in Waterwood Estates, or the spouse of such Owner or Co-Owner. The number of Directors may be increased or decreased from time to time by amendment of these By-Laws but no decrease shall have the effect of shortening the term of any incumbent Director. Any directorship to be filled by reason of an increase in the number of Directors shall be filled by election at an annual meeting of Members or at a special meeting of Members called for that purpose.

§4.03 ANNUAL ELECTION AND TERM OF OFFICE

Three (3) Directors shall be elected at the annual meeting of Members, as prescribed in the foregoing §2.03 and §3.02, to serve a three (3) year term beginning on March 01, in the year of election, except as otherwise provided in these By-Laws. The candidates receiving a plurality (highest number) of votes shall be declared duly elected and shall hold office until their respective successors are elected or until their death, resignation, or removal. The following election procedure shall be followed:

- A. The Directors shall be elected by the Members in good standing and entitled to vote by a printed or written ballot.
- B. Prior to January 01, the President shall appoint a Nominating Committee which shall consist of at least one (1) current Director, who shall serve as chairman of the committee, and two (2) or more Members. It shall be the duty of this committee to nominate from the membership of the Association candidates for directors.
- C. Nominations from the floor, at the Annual Meeting of Members for the Election of Directors, shall be allowed.
- D. The nominating committee shall file its report with the President no later than February 01.
- E. All nominees shall be Members of the Association in good standing.
- F. The President shall have an official ballot prepared, stating the authorized number of Directors to be elected, listing the names of Members nominated, said names to be placed on the ballot in alphabetical order, with a request that each Member vote for the nominees of their choice according to the cumulative voting provisions of Article II, §2.04. Space shall be provided on the ballot for write-in votes.

- G. Prior to the annual meeting of Members, the President shall appoint an Election Committee to serve as Inspectors and Tellers of Election, consisting of three (3) or more Members. It shall be the duty of this committee to receive all ballots, tally the votes, and declare the successfully elected candidates at the Annual Meeting of Members.
- H. The President shall instruct the Secretary to deliver a notice of election to each Member in good standing and entitled to vote, in accordance with Article III, Section §3.06 of these By-Laws, at least fifteen (15) days in advance of the election date.
- I. The candidates receiving the highest number (plurality) of votes cast shall be declared and certified duly elected by the Chairman of the Election Committee. If a tie vote occurs, the Election Committee shall toss a coin to determine the result.
- J. The Election Committee shall cause to be issued to the President, a certificate of the results of the election, with said certificate bearing the names of members of the Election Committee. The election certificate shall be signed by each member of the Election Committee and placed in the Association's Corporate Record Book.
- K. All ballots shall be preserved for not less than one (1) year following the election date.

§4.04 POWERS AND DUTIES OF THE BOARD OF DIRECTORS

Subject to the Declaration affecting the Properties and to the limitations of the Articles of Incorporation, of these By-Laws, and of the statutes of the State of Texas, as to action to be authorized or approved by the Members, and subject to the duties of Directors as prescribed by said Declaration and/or these By-Laws, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Association shall be controlled by the Board of Directors. The Directors shall act only as a Board and an individual Director shall have no power as such. Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that:

- A. The Board of Directors shall have the power to select and remove all the officers, agents, contractors, and employees of the Association, prescribe such powers and duties for them as may not be inconsistent with law, the Articles of Incorporation or these By-Laws, fix their compensation and require from them security for faithful service.
- B. The Board of Directors shall have the power to approve and confirm the appointment of such standing and/or special committees and their respective chairman, as it shall determine and to delegate such powers to them as the Board shall deem advisable and which it may properly delegate, subject to the recommendation of the Executive Committee or President, as the case may be, and any specific provision or provisions of these By-Laws.
- C. The Board of Directors shall have the power to give general or limited or special power and authority to the officers or committees of the Association to transact the general business, or any special business, of the Association, and may give powers of attorney to agents of the Association to transact any special business requiring such authorizations.
- D. The Board of Directors shall have the power to conduct, manage and control the affairs and business of the Association, and to make and adopt such rules and regulations for the conduct of its meetings and the management of the Association as it may deem proper, subject to the provision such rules and regulations shall in no way be in conflict with State Statutes, Local Law, the Declaration, the Articles of Incorporation, or these By-Laws.

- E. The Board of Directors shall have the power to change the principal office for the transaction of business of the Association from one location to another within the same county; to designate any place within the County of Orange, State of Texas for the holding of any membership meeting or meetings.
- F. The Board of Directors shall have the power to adopt, make and use a corporate seal, and to alter the form of such seal from time to time as in their judgment they may deem best, provided such seal shall, at all times, comply with the provisions of law.
- G. The Board of Directors shall have the power, by a two-thirds vote of those present at any regular or special meeting, to discipline, suspend or remove any Director, Officer, or Committee Member.
- H. The Board of Directors shall have the power to make, alter, amend or repeal, in whole or in part, the By-Laws of the Association with an affirmative two-thirds (2/3) vote of the Board of Directors.
- I. The Board of Directors shall have the power to amend, correct and approve the minutes of meetings of the Membership.
- J. The Board of Directors shall have the power to control revenues; adopt budgets, make or approve appropriations; fix the policy or policies of the Association; determine its methods or operations; and determine, in general, the scope and character of the activities of the Association, however, subject to such limitations prescribed by law, the Declaration of Covenants and Restrictions, the Articles of Incorporation, or these By-Laws of the Association.
- K. The Board of Directors shall have the power to borrow money and incur indebtedness for the purposes of the Association, and to cause to be executed and delivered therefor, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and securities therefor; provided however, that the Board of Directors shall not have the power to borrow money for the Association in excess of the aggregate sum of Twenty-Five Thousand Dollars (\$25,000.00) without the assent of a majority of the Members of the Association casting ballots.
- L. The Board of Directors shall have the power, consistent with the Declaration applicable to the Properties, to manage, lease, operate, maintain and repair the Common Area, together with all buildings, structures and other improvements thereon, including, by way of description and not by way of limitation, the following:
 - 1. To contract and pay for fire, casualty, liability and other insurance adequately insuring the Officers, Directors, Employees, Committee Members, the Common Area and all improvements and property located thereon, including bonding of any said Officers, Directors, Employees or Committee Members.
 - 2. To pay all charges for water metered or charged to the Common Area.
 - 3. To provide and pay for appropriate lighting for all the Common Area.
 - 4. To maintain and repair the Common Area and all improvements located thereon, including the walls, roofs, and foundations, of all buildings and structures now or hereafter constructed on the Common Area, and to provide and pay for maintenance of the Common Area.

5. To landscape, care for, maintain and water all planted areas in the Common Area.
 6. To pay any taxes and special assessments which are or would become a lien on the Common Area.
 7. To contract and pay for the maintenance, gardening, utilities, materials and supplies, services relating to the Common Area and maintenance of the Common Area, including legal and accounting services.
 8. To restore or replace any or all of the buildings, structures, or improvements at any time and from time to time as the Board of Directors may determine desirable or necessary, and to make additional capital expenditures for and on the behalf of the Association; provided, however, that no single capital expenditure in excess of \$25,000.00 shall be made without the vote or written assent of a majority of the Members of the Association casting ballots.
 9. To enter into any of the buildings located in the Common Area for the purpose of carrying out any of the powers or duties of the Board of Directors as herein set forth or as set forth in the Declaration covering the Properties.
 10. To enforce the provisions of any Declaration affecting the Properties and to enforce each and every one of the provisions of these By-Laws or any other agreement to which this Association is a party.
 11. To delegate any of its powers hereunder.
- M.** The Board of Directors shall keep books with detailed accounts in chronological order of the receipts and expenditures affecting the Common Area, and the administration of the Association, specifying the expenses of maintenance, improvement and repair of the Common Area and any other expenses incurred. Such books and vouchers evidencing the entries thereupon shall be available for examination by the Members, their duly authorized agents or attorneys, during general business hours on working days at the times and in the manner set and announced by the Board of Directors for the general knowledge of the Members. All books and records shall be kept in accordance with good and accepted accounting practices, and the same shall be audited at least once each year.

§4.05 FIDUCIARY RELATIONSHIP AND RESPONSIBILITY

The members of the Board of Directors and each Officer of the Association have a fiduciary relationship with the Members of the Association. This fiduciary relationship imposes obligations of trust and confidence in favor of the Association and its Members. Board Members and Officers should exercise due care and diligence when acting for the Association, and should act within the scope of their authority.

§4.06 ANNUAL REPORT OF BOARD OF DIRECTORS

The Board of Directors shall receive at the annual meeting of the Members of the Association a report verified by the President and Treasurer, or by a majority of the Directors, showing the whole amount of real and personal property owned by it, where located, and where and how invested, the amount and nature of the property acquired during the year immediately preceding, the date of the report and the manner of the acquisition; the amount applied, appropriated or expended during the year immediately preceding such date, and the purposes, objects or persons to or for which such applications, appropriations or expenditures have been made; and the names and places of residence of the persons who have been admitted to

membership in the Association during such year, which report shall be filed with the records of the Association and an abstract thereof entered in the minutes of the proceedings of the annual meeting.

§4.07 VACANCIES

If any vacancy occurs in the Board of Directors, by death, resignation or otherwise, it may be filled by the affirmative vote of a majority of the remaining Directors at any regular meeting or any special meeting called for that purpose. In the event three (3) or more vacancies occur at anytime, notification of the vacancies and the date, time and place of an election to be held to fill them shall be provided to all Members of record. The Members may elect a Director at any time to fill any vacancy not filled by the Directors. A Director, so elected to fill a vacancy, shall be elected for the unexpired term of his predecessor. Any directorship to be filled by reason of an increase in the number of Directors shall be filled by election at the Annual Meeting of Members or a special meeting of Members called for that purpose.

§4.08 REMOVAL OF DIRECTORS

- A. Since membership in the Association is mandatory for board membership, the sale or transfer of a Board Member's property will terminate the rights to serve on the Board. Removal from the Board of Directors would be automatic at the time of sale.
- B. The entire Board of Directors or any individual Director may be removed, with or without cause, by a majority vote of the Members present, at a special meeting called for that purpose.

§4.09 ASSOCIATION DOCUMENTS

The Association, at its own expense, shall provide all Board Members with a current copy of the Association's Declaration of Covenants, Conditions and Restrictions, Articles of Incorporation, By-Laws, and Rules and Regulations.

§4.10 CONFLICTS OF INTEREST

A Director shall not use his official position for personal gain. A Director who has a conflict of interest on any issue before the Board shall disclose the nature of the conflict of interest prior to a vote on that issue at the Board Meeting, and minutes of the meeting shall record that a disclosure was made. A Director should refrain from voting upon any matter which involves an actual or potential conflict of interest.

§4.11 COMMON OR INTERESTED DIRECTORS

The Directors shall exercise their powers and duties in good faith and with a view to the interests of the Association and Waterwood Estates. No contract or other transaction between the Association and one or more of the Directors, or between the Association and any corporation, firm or association, including the Declarant, in which one or more of the Directors of the Association are directors or officers or are pecuniarily or otherwise interested, is either void or voidable because such Director or Directors are present at the meeting of the Board of Directors or any committee thereof which authorizes or approves the contract or transaction, or because his or their votes are counted for such purpose, if any of the conditions specified in any of the following subparagraphs exist:

- A. The fact of the common directorate or interest is disclosed or known to the Board of Directors or majority thereof or noted in the minutes, and the Board authorizes, approves, or ratifies such contract or transaction in good faith by a vote sufficient for the purpose; or
- B. The fact of the common directorate or interest is disclosed or known to the Members of the Association, or a majority thereof, and they approve or ratify the contract or transaction in good faith by a vote sufficient for the purpose; or
- C. The contract or transaction is commercially reasonable to the Association at the time it is authorized, ratified, approved or executed.

§4.12 COMPENSATION

No Member of the Board of Directors shall receive compensation from the Association for acting as such. However, any Director may be reimbursed for his actual expenses incurred in the performance of his duties.

§4.13 LIMITATION OF LIABILITY

The Board of Directors shall have sole power to determine for which authorized purposes monies in the General Fund shall be spent including the power to determine how much shall be held in reserve. The Association shall indemnify to the fullest extent permitted by law any person who has been made, or threatened to be made, a party to an action, suit, or proceeding, whether civil, criminal, administrative, investigative, or otherwise, including an action, suit or proceeding by or in the right of the Association, by reason of the fact that the person is or was a Director or Officer of the Association, or serves or served at the request of the Association as director, or officer, of another corporation, partnership, joint venture, or other enterprise.

ARTICLE V
Board of Directors' Meetings

§5.01 PLACE OF BOARD OF DIRECTORS' MEETINGS

All meetings of the Board of Directors (annual, special, or regular) shall be held in Orange County, Texas or at such other places as shall be designated in the notice of meeting.

§5.02 ATTENDANCE REQUIREMENT

- A. It shall be necessary for members of the Board of Directors to attend regularly scheduled monthly meetings. After three (3) absences in any twelve month period, the absent Director's attendance and Board participation record will automatically be referred to the Executive Committee for review.
- B. The Executive Committee shall present a report of its findings and recommendations for action to the Board at the next regular Board Meeting. A two-thirds vote of members of the Board present and voting shall be required to terminate a Directorship.

§5.03 QUORUM OF DIRECTORS

- A. A majority of the number of elected Directors in office shall be necessary to constitute a quorum for the transaction of business, except to adjourn as hereinafter provided. When a quorum is present, every act done or decision made by a majority vote of the Directors present, except where a greater majority is required by the Articles of Incorporation or these By-Laws, shall be binding and shall be regarded as the act of the Board of Directors. Each Director shall be entitled to one (1) vote or one (1) written directed proxy vote.
- B. In the event the absence of a quorum is claimed and determined, no business shall be conducted and the presiding officer shall postpone the meeting to such a date as he may select, but not more than two (2) weeks after the regularly called meeting date and notice of such new date shall be given to each Director in person or writing, prior thereto.

§5.04 ANNUAL MEETING OF DIRECTORS

- A. Within thirty (30) days after the Annual Meeting of Members, the Board of Directors elected at such meeting shall hold an annual meeting at which they shall nominate from the floor candidates for Association office and elect a President, a Vice President, a Secretary, and Treasurer; and transact such other business as shall come before the meeting. The outgoing President shall preside at this annual meeting of Directors.
- B. Prior to April 01, the Board of Directors shall deliver to each Member of Record a copy of the approved minutes of the Annual Meeting of Members and a notice of Regular Board Meetings for the ensuing twelve month period, with said notice stating the date, time and place Regular Board Meetings are to be held. The Board of Directors shall also notify said Members at least seven (7) days in advance of any changes in scheduled Regular Board Meetings.

§5.05 REGULAR MEETINGS OF DIRECTORS

Regular meetings of the Board of Directors shall be held monthly, without call or notice on the Second Tuesday of each month, or at such other times as the Directors may determine. All Regular Meetings of the Board of Directors shall be held at a public place, open and accessible to the general membership of the Association.

§5.06 SPECIAL MEETINGS OF DIRECTORS

The President, Vice President, Secretary, or Treasurer whenever any of them deems it advisable, and the Secretary shall, at the request in writing of three (3) or more Directors, issue a call for a special meeting of the Board of Directors. Written notice of the special meeting, stating the time, the day, the place and in general terms the purpose or purposes, shall be given by the Secretary to each Director either by mail at least three (3) days before the time appointed for the meeting to the last recorded address of each Director, or by telephone or personal notice at least twenty-four (24) hours preceding the meeting. No business or matters not stated on the notice of meeting may be acted upon at the special meeting.

§5.07 OPEN MEETING AND EXECUTIVE SESSION

All regular meetings of the Board of Directors, other than executive session, shall be open to all Members of the Association. Association Members who are not on the Board may participate in any deliberation or discussion, other than executive sessions, unless a majority of a quorum of the Board of Directors votes otherwise. The Board of Directors, with the approval of a majority of a quorum of Directors, may adjourn a meeting and reconvene in executive session to discuss and vote upon personnel matters, matters of a sensitive nature, or litigation in which the Association

is or may become involved. The nature of any and all business to be considered in executive session shall first be announced in open session.

§5.08 WAIVER OF NOTICE

Before or at any meeting of the Board of Directors, any Director may, in writing, waive notice of such meeting and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a Director at any meeting of the Board, unless he objects to the calling of the same, shall be a waiver of notice by him of the time and place thereof. If all the Directors are present at any meeting of the Board, no notice shall be required and any business may be transacted at such meeting. Any meeting so held and attended by all Directors without objection shall, notwithstanding the fact that no notice of meeting was given, or that the notice given was improper, be valid for all purposes, and at such meeting any general business may be transacted and any action may be taken.

§5.09 BOARD ACTION WITHOUT MEETING

Any action required or permitted to be taken by the Board of Directors, may be taken without a meeting, and with the same force and effect as a unanimous vote of Directors, if the required majority of Board Members, for the type action being taken, signs a written consent to the action to be taken and such consents are filed with the Secretary of the Association. Immediately upon receipt of the consents to take action, such action shall take full force and effect.

§5.10 CONSENT OF ABSENTEES

No defect in the calling or noticing of a meeting of the Board of Directors shall affect the validity of any action taken at the meeting if a quorum was present.

§5.11 ENTRY OF NOTICE

Whenever any Director has been absent from any meeting of the Board of Directors, whether annual, regular or special, an entry in the Minutes to the effect that notice has been duly given shall be conclusive and incontrovertible evidence that due notice of such meeting was given to such Member as required by law and the By-Laws of the Association.

§5.12 ADJOURNMENT

A quorum of the Board of Directors may adjourn any Directors' meeting to meet again at a stated day and hour; provided, however, that in the absence of a quorum a majority of the Directors present at the Directors meeting, either regular or special, may adjourn from time to time until the time fixed for the next regular meeting of the Board of Directors.

§5.13 ADJOURNMENT NOTICE

Notice of adjournment of any Board of Directors' meeting, either regular or special, shall be given to absent Directors, of the time and place fixed for the resumption of the meeting which was adjourned.

§5.14 CONDUCT OF MEETINGS

The President, or, in his absence, the Vice President, or, in his absence, any Director selected by the Directors present, shall preside at meetings of the Board of Directors. The Secretary of the Association, or in his absence, any person appointed by the presiding officer, shall act as secretary of the Board of Directors.

ARTICLE VI

Officers, Duties and Powers

§6.01 TITLE AND APPOINTMENT

The Officers of the Association shall consist of a President, a Vice President, a Secretary, and a Treasurer. All such Officers shall be elected at the Annual Meeting of the Board of Directors provided for in Article V, §5.04A. If any office is not filled at such Annual Meeting, it may be filled at any subsequent regular or special meeting of the Board of Directors. The Board of Directors at such Annual Meeting, or at any subsequent regular or special meeting may also elect or appoint such other officers and assistant officers and agents as may be deemed necessary or desirable, and may prescribe the powers and duties of each.

§6.02 REMOVAL OF OFFICERS

All officers and assistant officers shall be elected to serve until the next Annual Meeting of the Board of Directors (following the next Annual Meeting of Members) or until their successors are elected; provided, that any officer or assistant officer elected or appointed by the Board of Directors may be removed by a two-thirds vote, with or without cause, at any regular or special meeting of the Board of Directors whenever in the judgment of the Board of Directors the best interests of the Association will be served thereby.

§6.03 VACANCIES

If any office becomes vacant by death, resignation or otherwise, the vacancy may be filled at any regular or special meeting of the Board of Directors by election of one of the remaining Directors by the affirmative majority vote of the Board of Directors. A Director so elected to fill a vacant office shall be elected for the unexpired term of his predecessor.

§6.04 POWER AND DUTIES OF OFFICERS.

Each officer shall have, subject to the Articles of Incorporation and these By-Laws, in addition to the duties and powers specifically set forth herein, such powers and duties as are commonly incident to his office and such duties and powers as the Board of Directors shall from time to time designate. All officers shall perform their duties subject to the directions and under the supervision of the Board of Directors. The President may secure the fidelity of any and all officers by bond or otherwise.

§6.05 THE PRESIDENT

The President shall be the Chief Executive Officer of the Association, Chairman of the Board of Directors and Chairman of the Executive Committee. He shall preside at all meetings of the Board of Directors and at all meetings of Members. He shall see that all orders and resolutions of the Board of Directors are carried out, subject however, to the right of the Board of Directors to delegate specific powers, except such as may be by statute, the Articles of Incorporation, the By-laws, or the Association Rules and Regulations, or exclusively conferred on the President, to any other officers of the Association. In addition, the President shall:

- A. Conduct the affairs of the Association and execute the policies established by the Board of Directors.
- B. Execute bonds, mortgages and other instruments requiring a seal, in the name of the Association, and when authorized by the Board of Directors, he or the Vice President may

affix the corporate seal to any instrument requiring the same, and the seal when so affixed shall be attested by the signature of the Secretary.

- C. Sign any and all Membership certificates authorized by the Board of Directors and issued by the Association.
- D. Present a report of the condition of the Association at the Annual Meeting of Members as prescribed in Article III, §3.02.
- E. Submit an annual budget to the Board of Directors and be responsible for the proper execution thereof.
- F. Communicate to the Board of Directors, such matters as he may deem appropriate, and make such suggestions as may tend to promote the welfare of the Association.
- G. Be a an Ex-Officio member of all standing and special committees.
- H. Designate in writing, other officers if necessary, to have power to make and execute for/and in the name of the Association such contracts and leases as may have received prior Board approval.
- I. Investigate complaints, irregularities and conditions detrimental to the Association and report thereon to the Board of Directors or Executive Committee as circumstances warrant.
- J. Be responsible for the conduct of the Association in strict conformity to the policies, principles, the Declaration of Conditions, Covenants and Restrictions, the Articles of Incorporation, these By-Laws, and the Rules and Regulations of the Association.

§6.06 THE VICE PRESIDENT

The Vice President shall in the case of absence or disability of the President, and provided he is authorized by the President or Board of Directors so to act, perform the duties of the President, and when so acting, shall have all the powers of that office, and shall have such other powers and perform such other duties as from time to time may be assigned by the Board of Directors or by the President. The Vice President shall be Vice Chairman of the Board of Directors, Vice Chairman of the Executive Committee and Chairman of the By-Laws and Rules Committee.

§6.07 THE SECRETARY

The Secretary shall attend all meetings of the Executive Committee, Board of Directors and Members of the Association and shall record all votes and the minutes of all proceedings and shall perform like duties for standing committees when required. The Secretary shall keep in safe custody the corporate seal of the Association, and when authorized by the Board of Directors or the President, affix the same to any instrument requiring it, and when so affixed, it shall be attested by the signature of the Secretary. In addition, the Secretary shall:

- A. Be responsible for recording the activities of the Association and maintain appropriate files, mailing lists and necessary records.
- B. Perform such duties as are herein specifically set forth, in addition to such other duties as are customarily incident to the Office of Secretary or as may be assigned by the President or Board of Directors.
- C. Maintain a list of all Members, Directors and Committee Members and give notice of all meetings of the Association, the Board of Directors and Committees, as may be required.

- D. Maintain the official Membership roll and voting list of the Association.
- E. Sign any and all Membership certificates authorized by the Board of Directors and issued by the Association.
- F. Keep the minutes of the meeting of Members, the Board of Directors and the Executive Committee, and cause them to be recorded in a book kept for that purpose.
- G. Conduct all correspondence not otherwise specifically delegated in connection with said meetings and shall be responsible for carrying out all orders, votes and resolutions not otherwise committed.
- H. Notify Directors, Officers, and Committee Members of their election or appointment.
- I. Maintain the Corporate Record Book in which the Declaration of Covenants, Conditions, and Restrictions, Articles of Incorporation, By-Laws, Rules and Regulations, special rules of order, standing rules, and minutes are entered, with any amendments to these documents properly recorded, and to have the current Corporate Record Book on hand at every meeting.
- J. Sign all certified copies of acts of the Board of Directors.
- K. Prepare, prior to each meeting, an order of business for the use of the presiding officer, showing in their exact order, under each heading, all matters known in advance that are due to come up at the meeting.
- L. In the absence of the President and Vice President, call the meeting to order and preside until the immediate election of a chairman pro-tem.

§6.08 THE TREASURER

The Treasurer shall be the conservator and shall have the custody of the Association funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Association and shall deposit all monies and other valuable effects in the name and to the credit of the Association in such depositories as may be designated by the Board of Directors. The Treasurer shall be Chairman of the Finance Committee. In addition the Treasurer shall:

- A. Perform such duties as herein specifically set forth and such other duties as are customarily incident to the Office of Treasurer or may be from time to time assigned by the President or Board of Directors.
- B. Prepare and mail assessment invoices to all Members thirty days prior to the due date.
- C. Receive all monies, securities and other valuable effects, and shall deposit same in such depositories as may be designated and approved by the Board of Directors.
- D. Disburse the funds of the Association as may be ordered by the Board of Directors, taking proper vouchers for such disbursements.
- E. Disburse funds for capital expenditures as authorized by the Board of Directors and in accordance with the orders of the President, and present to the President for his attention any requests for disbursing funds, if in the judgment of the Treasurer, any such request is not properly authorized.

- F. Keep and maintain records for the receipt and disbursement of all monies and securities of the Association and approve all payments from allotted funds and draw checks therefor.
- G. Keep and maintain the Association's books of account and shall render to the President and Board of Directors, at each and every regular meeting of the Board of Directors, a full written and accurate account of all of his transactions as Treasurer and of the financial condition of the Association and exhibit his books, records and accounts to the President or Board of Directors at any time.
- H. Willingly submit to the Audit Committee, for audit and examination, all Association Books and Records of Account.
- I. Prepare an annual financial statement, with the assistance of the Finance Committee and under the direction of the President, for submission to the Association Members at its Annual Meeting.
- J. Prepare an annual budget, with the assistance of the Finance Committee and under the direction of the President, for submission to the Board of Directors at the annual meeting of the Board of Directors.
- K. If required by the Board of Directors, the Treasurer shall give the Association a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Association, in case of death, resignation or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Association.

ARTICLE VII

Executive Committee

- §7.01 An Executive Committee shall be created consisting of the President, Vice President, Secretary, and Treasurer.
- §7.02 The Executive Committee shall have general supervision of the affairs of the Board of Directors between its regular monthly meetings, shall fix the hour and place of Board of Directors meetings, make recommendations to the Board of Directors, and perform such other duties as are specified in the Articles of Incorporation and these By-Laws. The Executive Committee shall have such other powers as may be delegated to it by the Board of Directors and shall be subject to the orders of the Board of Directors, and none of its acts shall conflict with action taken by the Board of Directors.
- §7.03 The Executive Committee shall act for and as the Board of Directors in the interim between meetings of the Board of Directors, being vested with all the powers of the Board of Directors at such times and shall submit to the Board of Directors the minutes of its actions.
- §7.04 The Executive Committee shall appoint Directors to the chairmanship of Standing Committees, subject to the Board of Directors final approval and/or any specific provisions of the By-Laws.
- §7.05 The Executive Committee shall meet upon call by the President, or upon request of any two (2) Members of the Executive Committee to pass or act on any emergency matter pertaining to the Association.

§7.06 The Executive Committee shall be authorized to spend Association money for the execution of Association business. However, the Executive Committee shall not have the power or authorization to spend Association funds in excess of One Thousand Dollars (\$1,000.00) without prior approval of the Board of Directors.

§7.07 At any meeting of the Executive Committee a majority of the total number of committee Members then in office shall constitute a quorum for the transaction of business, and the act of a majority present at any meeting at which there is a quorum shall be the act of the Executive Committee.

ARTICLE VIII

Designation of Committees

§8.01 APPOINTMENT OF COMMITTEES

The Board of Directors shall have final approval of Directors or Members appointed to standing committees. Each committee shall consist of three (3) or more Directors or Members, subject to any specific provision(s) of the By-Laws. The President shall be an Ex-Officio Member of all committees of the Board. The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member, and the alternate or alternates, if any, designated for such committee member, the member or members thereof present at any meeting and entitled to vote, whether or not they constitute a quorum, may unanimously appoint another Director to act at the meeting in place of any such absent or disqualified member. Members of a committee shall serve until the next Annual Meeting of the Members of the Association or until their successors are appointed.

§8.02 DUTIES AND POWERS OF COMMITTEES

It shall be the function and duty of the various committees of the Board of Directors to investigate and make recommendations to the Executive Committee and Board of Directors, and to carry out instructions and tasks as delegated to them by the Executive Committee or Board of Directors. No committee shall represent the Board of Directors or Association in advocacy or opposition to any project without the specific confirmation as may be clearly granted under general powers delegated by the Board of Directors to that committee.

§8.03 COMMITTEE CHAIRMEN AND COMMITTEE MEMBERS

Committee members shall not be required to be Members of the Board of Directors, subject to any specific provision(s) of the By-Laws. However, they shall be required to be Members, in good standing, of the Association. Within thirty (30) days of their appointment, chairmen of standing committees shall submit to the Executive Committee a slate of their committee members for approval. In the event a slate of committee members is not submitted, the Executive Committee shall appoint committee members.

§8.04 COMMITTEE MEETINGS

Meetings of the committees of the Board of Directors may be called by the respective Chairman thereof or by any two members of the committee. At all meetings of any committee, a majority of the members of the committee shall constitute a quorum for the transaction of business, and the act of a majority of the members present at any meeting thereof at which there is a quorum, shall be the act of the committee, except as may be otherwise specifically provided for in these By-

Laws. The President, in his capacity as an Ex-Officio member of all committees, shall be informed in advance of the date, time and place of all committee meetings.

§8.05 STANDING COMMITTEES

Standing Committees shall be constituted as provided for in Article IX and any other provision(s) of the By-Laws to perform a continuing function of the Association; and shall remain in existence and service until their respective successors are appointed or until their death, resignation or removal.

§8.06 AD HOC OR SPECIAL COMMITTEES

An Ad Hoc or special committee may be appointed, as the need arises, by the President, Executive Committee, Board of Directors or the Chairman of a Standing Committee, to carry out a specific task. At the completion of its assigned task, that is on presentation of its final report to the entity that created it, it shall automatically cease to exist. An Ad Hoc committee should not be appointed to perform a task that falls within the assigned function of an existing Standing Committee.

ARTICLE IX

Standing Committees

§9.01 ARCHITECTURAL CONTROL COMMITTEE

The Architectural Control Committee shall consist of five (5) or more Members. The Architectural Control Committee shall be responsible for the approval of plans and specifications for the development and maintenance of common and private areas and for the formulation, promulgation and enforcement of rules and regulations governing the use and maintenance of private areas and the improvements thereon. The Architectural Control Committee may from time to time adopt, amend, and/or repeal rules and regulations, to be know as the "Architectural Control Committee Rules and Regulations," establishing its operating procedures and detailing, interpreting, and implementing the provisions of the instruments pursuant to which it is charged responsibility. The Architectural Control Committee may establish a reasonable fee schedule to offset its costs incurred in considering and acting upon matters submitted to it. Such fees shall be paid into the General Fund. A current copy of the Architectural Control Committee Rules and Regulations and schedule of fees shall be kept on file at the principal office of the Association at all times. Any rule, regulation, or fee adopted by the Architectural Control Committee or any waiver and/or variance of published rules, regulations, and fees shall be subject to approval by the Board of Directors. All Architectural Control Committee decisions shall be subject to appeal utilizing the appeal procedure contained in the committee's published Rules and Regulations. The appeal procedure ensures that ultimate responsibility for and authority over the Architectural Control Committee decisions rest with the Board of Directors who, by a two thirds (2/3) vote, may confirm, modify, or reverse any such decision thus appealed.

§9.02 BY-LAWS AND RULES COMMITTEE

- A.** The Vice President shall be the Chairman of the By-Laws and Rules Committee which shall consist of three (3) or more Members.
- B.** The By-Laws and Rules Committee shall keep the By-Laws updated, subject to the provisions of Article XX. The By-Laws and Rules Committee shall consider any and all suggested amendments to the By-Laws and shall submit any proposed amendments to the Board of Directors for consideration and approval.

- C. It shall be the responsibility of the By-Laws and Rules Committee to review any and all proposed Association Rules and Regulations to ensure they are in compliance and not in conflict with the Declaration of Covenants, Conditions and Restrictions, the Articles of Incorporation or these By-Laws. Any discrepancies found in Association Rules and Regulations shall be immediately reported to the Board of Directors with recommendations for appropriate action.
- D. It shall be the responsibility of the By-Laws and Rules Committee to submit, in writing, any proposed rules or regulations to the Board of Directors for their review and approval. Any such submission shall include a request for clarification and/or explanation of any rule rejection or otherwise disapproved or disallowed.

§9.03 COMMUNICATIONS COMMITTEE

The Communications Committee shall consist of three (3) or more Members. The Committee shall cultivate and maintain the best possible image of the Association in the community by providing the community and Members with information concerning the Association operations and objectives. It shall also be responsible for informing Members of Association activities through the publication of newsletters.

§9.04 COVENANTS COMMITTEE

The Covenants Committee shall consist of three (3) or more Members and shall be responsible for enforcing all provisions of the Declaration, these By-Laws, and the Rules and Regulations of the Association to ensure that all property, buildings and improvements which constitute Waterwood Estates, always be maintained in a manner which provides for visual harmony, soundness of repair, and that such activities as take place within Waterwood Estates be neither deleterious to the property values and attractiveness of Waterwood Estates, nor to the comfort of the Members, their guests and tenants. The Covenants Committee shall have the power to impose reasonable fines on, and issue a cease and desist request to a Member, his guests, invitees, or lessees whose actions are inconsistent with the provisions of the Declaration, these By-Laws, the Rules and Regulations and/or resolutions of the Board of Directors and the general and common good and welfare of the Association Members. The Covenants Committee shall, from time to time and as required by the Board of Directors, provide interpretations of the governing documents and duly adopted rules, regulations and resolutions pursuant to the intents, provisions and qualifications thereof; provided, however, that a majority vote of a quorum of the Board of Directors may alter, reverse, or overturn an interpretive ruling of the Covenants Committee. Any action, ruling or decision of the Covenants Committee may be appealed to the Board of Directors by any party deemed by the Board of Directors to have standing as an aggrieved party and the Board may modify, or reverse any such action, ruling or decision.

§9.05 FINANCE COMMITTEE

The Treasurer shall be the chairman of the Finance Committee which shall consist of three (3) or more Members. It shall investigate ways and means of financing the Association. The Finance Committee shall assist the Treasurer in preparing the annual financial statement to be submitted at the Annual Meeting of Members. The Finance Committee shall prepare an operating budget for the Association and submit the same to the President for his review at least thirty (30) days in advance of the Board of Directors regular meeting in January of each year. The Finance Committee shall also be responsible for recommending to the Board of Directors the type and quantity of insurance coverage essential to the Association's well being, including but not limited to casualty loss, general liability, and Director and Officer liability. The Finance Committee shall research the various sources of required insurance, determine the most cost-effective policies, and upon approval by the Board of Directors submit applications for coverage.

§9.06 GROUNDS COMMITTEE

The Grounds Committee shall consist of three (3) or more Members. The Grounds Committee shall investigate, review and recommend facility improvements and develop ways and means for implementing those improvements. The Grounds Committee shall be responsible for repair and improvement recommendations, other than normal maintenance, and supervise the performance of approved projects. The Grounds Committee shall be responsible for the care and maintenance of the Common Area buildings and grounds. The Grounds Committee shall be responsible for surveying building and grounds to ensure no safety hazards exist and to report to the Board of Directors the existence and corrective action for any safety hazards found. The Grounds Committee should work closely with other committees to prepare for Board approval a comprehensive plan for the development and improvement of the Association's common property. The Grounds Committee shall also be responsible for reviewing the adopted long range plans at least once per year. Each year it shall update the plan and add to it an additional year's activity, so that a long range plan is always in effect. A Grounds Committee long range planning report should be included in the President and Treasurer's annual report, submitted to Members at the Annual Meeting of Members. The Grounds Committee shall operate within the amount appropriated in the approved budget for that purpose.

ARTICLE X
Assessments and Lien Rights

§10.01 ANNUAL ASSESSMENT

The annual assessments levied by the Board of Directors shall be used exclusively to promote the recreation, health, safety, and welfare of the Members of the Association and for the purpose of improving, operating, maintaining, and repairing the Common Area, paying the necessary expenditures of the Association as provided in these By-Laws and establishing an operating reserve fund for replacement. Such assessment shall be the same for each Lot in the Properties owned by a Member. The annual assessment, established per Lot by the Board of Directors, shall be the same for each Lot in the Properties owned by a Member, and shall be due on January 01 and payable by January 31 of each year. This amount shall be prorated for the year of purchase.

§10.02 ANNUAL ASSESSMENT INCREASE

The annual assessment may be increased by the Board of Directors from year to year up to an annual increase not to exceed 10.0% of the annual assessment fee from the previous year.

§10.03 SPECIAL ASSESSMENTS

A. Special Assessments for Capital Improvements or Emergency Situations. In addition to the annual assessment authorized above, the Board of Directors may levy in any assessment year, a special assessment applicable to that year only, for the purpose of defraying, in whole or in part, the cost of any construction or reconstruction, unexpected repair or replacement of a described capital improvement upon the Common Areas, including the necessary fixtures and personal property related thereto, provided that any such special assessment for structural alterations, capital additions or capital improvements shall require the assent of a two-thirds (2/3) majority of Members who are voting in person or by proxy at a meeting duly called for this purpose, written notice of which shall be sent to all Members not less than fifteen (15) days nor more than thirty (30) days in advance of the meeting setting forth the purpose of the meeting. This section shall not prohibit the Directors from authorizing capital

expenditures for replacements or repairs or improvements from funds generated by regular assessments.

- B. Special Assessments for Negligence or Violations.** The Board of Directors shall have the power to levy a special assessment against any Member as a direct result of whose acts, or failure or refusal to act or otherwise comply with the Declaration, Rules and Regulations, or By-Laws, monies were expended from the operating fund of the Association in performing its functions under the Declaration or By-Laws. Such special assessment shall be in the amount so expended, and shall be due and payable to the Association when levied.

§10.04 UNIFORM RATE OF ASSESSMENT

Both annual assessments and any special assessments for capital improvements or emergency situations must be fixed at proportionately uniform rates for all Lots and may be collected upon an annual, quarterly, or monthly basis in the discretion of the Board of Directors.

§10.05 EFFECT OF NON-PAYMENT OF ASSESSMENTS

If the assessment, annual or special, is not paid within thirty (30) days after the due date, the member shall pay a late charge of five percent (5.0%) of the assessment per month the assessment is not paid. In addition, the assessment shall bear interest from the date of delinquency at the rate of eighteen percent (18.0%) per annum, and the Association may bring action at law against the Owner personally obligated to pay the same or foreclose the lien against the Property, add interest, costs, and reasonable attorney's fees of such action shall be added to the amount of such assessment. No Owner may waive or otherwise escape liability for the assessments provided for herein by non-use of any of the facilities or services provided by the Association or by abandonment of said Owner's Lot.

§10.06 LIEN RIGHTS AND PERSONAL OBLIGATION

- A.** The Association for the purpose of enforcing payment of said assessments, shall have a lien against the interest of any Member in a Lot to secure the faithful performance in compliance with these By-Laws and the Declaration and the full and prompt payment of all assessments, fees, fines, penalties and interest levied by the Board of Directors, and in the event of non-performance or a default by any Member, said interest of such Member may be foreclosed by this Association in the same manner as a realty mortgage. The lien hereby created shall, at all times, be subordinate and inferior to the lien of any first mortgage or deed of trust which now exists or is hereinafter placed on the Properties or any part or parcel thereof.
- B.** If the delinquency should continue in excess of ninety (90) days, the Association may bring an action at law against the Member personally obligated to pay the same or foreclose the lien above provided, and all costs and attorneys fees shall be added to the delinquency penalties. No Member may waive or otherwise escape liability for the fees and assessments provided for herein, by non-use of the Common Area or abandonment of the Member's Lot. Extenuating circumstances may be reviewed by the Board of Directors for appropriate action.

§10.07 SUBORDINATION OF THE LIEN RIGHTS TO MORTGAGE

The lien of the assessments provided for herein shall be subordinate to the lien of any mortgage or mortgages or Deed of Trust. Sale or transfer of any Lot shall not affect the assessment lien. However, the sale or transfer of any Lot which is subject to any mortgage, pursuant to a decree of foreclosure thereof, shall extinguish the lien of such assessments as to the amounts thereof which became due prior to such sale or transfer, and such lien shall attach to the net process of such foreclosure sale, if any, remaining after such mortgages and other prior liens and charges have

been satisfied. No sale or transfer shall relieve such Lot from liability for any assessments thereafter becoming due or from the lien thereof.

§10.08 EXEMPT PROPERTY

The following property subject to the Declaration shall be exempt from the assessments created therein:

- A. All properties expressly dedicated to and accepted by a local public authority;
- B. Any Common Areas;
- C. All other properties owned by the Association; and
- D. Property owned by the Declarant prior to the time a residence is constructed thereon and occupied. However no land or improvements devoted to residential use shall be exempt from such assessments.

§10.09 JOINT AND SEVERAL LIABILITY

If a Lot's ownership is comprised of more than one person, each shall be jointly and severally liable for any and all assessments and charges.

ARTICLE XI
Compliance, Default and Enforcement

§11.01 GENERAL PROVISIONS

The Board of Directors shall have the right to enforce all covenants, restrictions, conditions, reservations, rules and regulations, liens, and charges now or hereafter imposed by the provisions in the Declaration of Covenants and Restrictions, the By-Laws, or the Rules and Regulations of the Association or the Architectural Control Committee. Failure to enforce any of the foregoing shall in no event be deemed a waiver of right to do so thereafter. Any Member shall have the same right of enforcement, provided that such Member shall have given to the Board of Directors ninety (90) days advance notice in writing of his intention to commence such an action and, upon the expiration of the notice period, the Board of Directors has not commenced its own independent enforcement action.

§11.02 COMPLIANCE AND RELIEF

Each Property Owner shall be governed by, and shall comply with, all of the terms of the Declaration of Covenants and Restrictions, the By-Laws, or the Rules and Regulations of the Association or the Architectural Control Committee, as any of the same may be amended from time to time. Failure to comply with any of the terms of the Declaration, these By-Laws and the Rules and Regulations shall be grounds for relief which may include, without limiting the same, an action to recover any sums due for money damages, injunctive relief, foreclosure of the lien for payment of all assessments, and any other relief provided for in these By-Laws, or any combination thereof, and any other relief afforded by a court of competent jurisdiction, all of which relief may be sought by the Association, the Board of Directors, or if appropriate, by any aggrieved Owner. In addition to the remedies provided in the Declaration of Covenants and Restrictions, these By-Laws, or the Rules and Regulations of the Association or the Architectural

Control Committee, any default by a Property Owner shall entitle the Association, acting through its Board of Directors, to the following relief:

- A. Additional Liability.** Each Property Owner shall be liable for the expense of all maintenance, repair or replacement rendered necessary by his act, neglect or carelessness of the act, neglect or carelessness of any member of his family, agents, guests, invitees, tenants, licensees or lessees, but only to the extent that such expense is not covered by the proceeds of insurance carried by the Association. Such liability shall include any increase in casualty insurance premiums occasioned by the improper use, misuse, occupancy or abandonment of any Property or its appurtenances. Nothing contained herein, however, shall be construed as modifying any waiver by any insurance company of its rights of subrogation.
- B. Attorneys' Fees, Costs, and Expenses.** In the event that the Board of Directors or the Association shall bring any suit or action to enforce any provision contained in the Declaration of Covenants and Restrictions, in the By-Laws, or in the Rules and Regulations of the Association or the Architectural Control Committee or to collect any money due to it thereunder or to foreclose a lien, the defendant in such suit or action shall pay to the Association all costs and expenses which the Association may incur in connection with such suit or action, including a foreclosure title report, and such amount as the court may determine to be reasonable attorneys' fees therein, including attorneys' fees incurred in the connection with any appeal from a decision of the trial court or an intermediate appellate court. The Association shall also be entitled to assess and collect any and all costs incurred incident to the collection process even though no formal action or suit is commenced.
- C. No Waiver of Rights.** The failure of the Association or the Board of Directors or a Member to enforce any right, provision, covenant, condition, restriction, rule or regulation which may be granted by the Declaration of Covenants and Restrictions, these By-Laws, the Rules and Regulations of the Association or the Architectural Control Committee shall not constitute a waiver of the right of the Association, The Board of Directors or a Member to enforce such right, provision, covenant, condition, restriction, rule or regulation in the future. All rights, remedies and privileges granted to the Association, Board of Directors, or Member pursuant to any term, provision, covenant or condition of the Declaration, these By-Laws, the Rules and Regulations of the Association shall be deemed to be cumulative and the exercise of any one or more thereof, shall not be deemed to constitute an election of remedies, nor shall it preclude the party exercising the same from exercising such other privileges as may be granted to such party by the Declaration, these By-Laws, the Rules and Regulations, or at law in the equity.
- D. Abating and Enjoining Violation by Property Owners.** The violation of any of the Rules and Regulations adopted by the Board of Directors, the breach of any By-Law contained herein or the breach of any provision of the Declaration shall give the Board of Directors the right, in addition to any other rights:
1. to enter the Property in which, or as to which, such violation or breach exists and summarily to abate and remove, at the expense of the defaulting Property Owner, any structure, thing, or condition that may exist therein contrary to the intent and meaning of the provisions thereof, and the Board of Directors shall not thereby be deemed guilty in any manner of trespass; or
 2. to enjoin, abate or remedy by appropriate legal proceedings, either at law or in equity the continuance of any such breach.

§11.03 VIOLATION BY A NON-QUALIFYING IMPROVEMENT

In the event any Member constructs or permits to be constructed on his Property an improvement contrary to the provisions of the Waterwood Estates Declaration of Covenants and Restrictions, or the Rules and Regulations, or the Architectural Control Committee, or in the event that a Member maintains or permits any improvement or condition on his Property contrary to the provisions of the Waterwood Estates Declaration of Covenants and Restrictions, or such Rules and Regulations, the Board of Directors may, no sooner than sixty (60) days after delivery to such Member of written notice of the violation, enter upon the offending Property and remove the cause of such violation, or alter, repair or change the improvement or condition which is in violation of such declaration, rule, or regulation in such manner as to make it conform thereto. The Board of Directors may charge such Property Owner for the reasonable cost of the work done by it or performed on its behalf pursuant to this section. Such amounts shall become due and payable upon delivery by the Board of Directors to the Owner of notice of the amount due, and, upon receipt, shall be paid into the General Fund.

§11.04 DEFAULT IN PAYMENT OF ASSESSMENTS AND CHARGES

Each assessment, charge, or penalty levied or imposed pursuant to the Declaration, By-Laws, or Rules and Regulations, together with interest thereon, shall be a separate, distinct and personal debt and obligation of the Member against whom the assessment or charge is levied or imposed or from whom the amount is due. If the Member fails to pay any such assessment, charge, or penalty or any installment thereof when due, the Member shall be in default and the assessment, charge, or penalty not paid together with interest, cost, and attorneys' fees shall become a lien upon the Property owned by the Member from whom the assessment, charge, or penalty is due upon the filing by the Board of Directors in the records of the County Clerk of Orange County, Texas, a notice of lien setting forth the amount due and a description of the Property against which the lien is imposed.

§11.05 RIGHT OF ENTRY

The Board of Directors or any member of the Architectural Control Committee or Covenants Committee may at any reasonable time, upon reasonable notice, and from time to time at reasonable intervals, enter upon any Lot within Waterwood Estates for the purpose of determining whether or not such Lot or any improvement thereon is then in compliance with the Declaration of Covenants, Conditions and Restrictions, or the Rules and Regulations of the Association or the Architectural Review and Covenants Committees. In no event shall such entry be deemed to constitute a trespass or otherwise create any right of action in the Owner of such Property.

§11.06 INTEREST

Any amount not paid to the Association when due shall bear interest from the date due until paid at the rate of eighteen percent (18.0%) per annum.

§11.07 NON-EXCLUSIVENESS AND ACCUMULATION OF REMEDIES

Election by the Board of Directors or Association to pursue any remedy shall not prevent concurrent or subsequent exercise of another remedy permitted by law. The remedies provided in the Declaration of Covenants, Conditions and Restrictions, in the By-Laws, or in the Rules and Regulations of the Association or the Architectural Control Committee are not intended to be

exclusive but shall be in addition to all other remedies, including actions for damages or suits for injunctions or specific performance available under applicable law.

ARTICLE XII

Rules and Regulations

§12.01 GENERAL PROVISIONS

In the exercise of its powers and in the performance of its obligations pursuant to the Declaration, the Articles of Incorporation, and these By-Laws, the Board of Directors may adopt, amend or repeal rules and regulations, to be known as the Waterwood Community Association Rules and Regulations to provide for the manner in which Private Areas, Common Areas, and any other areas which all Owners, their guests, and lessees are entitled to use, shall be used. All rules and regulations must be applicable on a nondiscriminatory basis. A current copy of the Rules and Regulations shall be kept on file at the principal office of the Association at all times. Such Rules and Regulations shall have the same force and effect as if set forth as part of the Declaration of Conditions, Covenants and Restrictions. Each Owner shall be given a copy of such Rules and Regulations and copies of any changes thereto when made.

§12.02 ADOPTION, AMENDMENT OR REPEAL

- A.** The Board of Directors may adopt, amend, or repeal a rule or regulation contained or to be contained within the Rules and Regulations in accordance with the procedure set forth herein.
- B.** The adoption, amendment or repeal of a rule may also be proposed by a petition signed by twenty percent (20.0%) of the Members eligible to vote, which petition must then be submitted for a vote by all Members. If the petition is approved by a majority vote of all Owners, the adoption, amendment or repeal of the rule will be approved by the Board of Directors at its next regular meeting, provided the Board of Directors determines that there have been no irregularities in the vote, and the adoption, amendment or repeal of the rule will become effective thirty (30) days thereafter unless otherwise provided for within the petition.

§12.03 CHANGES OF RULES AND REGULATIONS

- A.** Any change in the Rules and Regulations by action of the Board of Directors, whether by adoption of a new rule or by amendment or repeal of an existing rule, must be approved by a two-thirds vote of the Directors present at a regular meeting of the Board of Directors.
- B.** A notice setting forth the change in the Rules and Regulations as approved by the Board of Directors, together with an explanation of the change, will be provided to each Owner within a reasonable period of time after its adoption. The notice will invite Owners to comment on the temporary rule(s).
- C.** At the next regular meeting of the Board of Directors following the adoption of the temporary rule(s), the Board of Directors will give serious consideration to all the comments received by Owners and shall make such additional changes in the temporary rule(s) as it may deem appropriate. Upon the approval of two-thirds of the Directors of the Board of Directors present, the rule(s) shall become final and effective fifteen (15) days thereafter.

- D. A copy of the Rules and Regulations and copies of any changes thereto will be kept on file at the Association's principal office.

§12.04 ENFORCEMENT OF RULES AND REGULATIONS

- A. In accordance with the provisions of §1.04 of these By-Laws each Owner is deemed to have covenanted that he will abide by, and cause all those who come on his premises to abide by the Rules and Regulations. A violation of a rule or regulation contained therein by an Owner, lessee, or guest may be regarded by the Association as a breach of such covenant for which such Owner may be liable for the payment of a fine or penalty to the Association. A failure by the Association to enforce any rule or regulation shall in no event be deemed a waiver of the right to do so thereafter.
- B. Pursuant to §10.06 of these By-Laws, any fine or penalty assessed to an Owner, lessee, or guest of such Owner which remains unpaid when due will become a lien upon the property owned or occupied by such Owner, lessee, or guest from whom such amount is due upon the filing of a notice of lien in accordance with the requirements set forth in said Article X of these By-Laws.
- C. The President or the President's designee is responsible for the promulgation and enforcement of the Rules and Regulations.

§12.05 CITATIONS, HEARINGS, AND APPEALS

- A. A majority of the Board of Directors of the Association shall appoint a Review Panel to review the issuance of citations in accordance with the procedures outlined herein. The Review Panel shall be comprised of three (3) Members. The term of appointment shall be one year, with no limitation on reappointment. The Chairman of the Board of Directors shall appoint one of the panel members as its chairman.
- B. With respect to violations of the Rules and Regulations set forth herein, the President may designate those persons who are empowered to issue a citation with respect to any violation of such Rules and Regulations.
- C. Any person who receives a citation may contest the citation by contacting the President or the President's designee within ten (10) days after issuance of the citation. If the citation constitutes the person's first offense for violation of the rules specified in the citation and if the President or the President's designee determines that good cause exists for the dismissal of the citation, then the President or the President's designee shall have the discretion to dismiss the citation.
- D. If the President or the President's designee does not dismiss the citation, the person receiving the citation may appeal the citation to the Review Panel in writing within ten (10) days after the decision of the President or the President's designee. The Chairman of the Review Panel shall assign the appeal to one member of the Review Panel. That member shall render a ruling on the appeal within ten (10) days thereafter.
- E. If the decision of the Review Panel member is adverse to the person receiving the citation, that person may request a hearing before the full Review Panel by filing such a request in writing with the President within ten (10) days after the decision of the Review Panel member. The request must be accompanied by payment of a non-refundable fee for the processing of the hearing in an amount in accordance with the fee schedule posted in the Association office and by this reference incorporated herein. The hearing shall be scheduled within ten (10) days after receipt of the request for a hearing. The person receiving the

citation may be represented by counsel at the hearing. The decision of a majority of the Review Panel shall be final and not subject to any further appeal.

- F. Immediately after the decision of the Review Panel, or after the expiration of the time periods designated herein, if no action is taken by the person receiving the citation in accordance with this section then the amount of the fine designated in the citation shall become due and payable by the person so cited. If the fine has not been satisfied within ninety (90) days after that date, it shall constitute a lien against the property of the person so cited or, if that person is a guest, against the property of the owner which the guest is visiting or using.

ARTICLE XIII

Insurance

§13.01 GENERAL PROVISIONS

The Board of Directors shall obtain and maintain at all times insurance, as set forth herein, including insurance against fire, with endorsement for extended coverage for the full insurable replacement value. Such insurance shall run to the benefit of the Association.

§13.02 LIABILITY INSURANCE

The Board of Directors shall be responsible for providing the necessary general liability insurance coverage for all Common Properties. Common Properties are defined as areas of Waterwood Estates which all Owners have access to, including the park and recreation areas and the boat ramp.

§13.03 CASUALTY INSURANCE

The Board of Directors shall be responsible for providing the necessary casualty, all risk insurance coverage for any and all structures constructed on Common Areas.

§13.04 WORKERS' COMPENSATION INSURANCE

The Board of Directors shall be responsible for providing the workers' compensation insurance coverage for employees at any point in time the Association employs any person to perform work for the Association.

§13.05 DIRECTORS AND OFFICERS INSURANCE

Adequate insurance shall be provided to protect the Association's Directors and Officers from personal liability for any actions taken on behalf of the Association.

§13.06 FIDELITY BONDING

The Board of Directors shall also be required to maintain adequate fidelity coverage to protect against dishonest acts on the part of officers, directors, committee members and trustees of such Board of Directors and of the Association and all others who handle, or are responsible for handling funds of the Association. Such fidelity bonds shall meet the following requirements:

- A. All such fidelity bonds shall name the Association as an obligee;
- B. Such fidelity bonds shall be written in an amount equal to at least One Hundred Fifty Percent (150%) of the estimated annual operating expenses of the Association, including reserve contributions for the current year.
- C. Such fidelity bonds shall contain waivers of any defense based upon the exclusion of any persons who serve without compensation; and
- D. Such bonds shall provide that they not be canceled or substantially modified, including cancellation for nonpayment of premium, without at least thirty (30) days prior notice.

§13.07 BOARD OF DIRECTORS AS AGENT

The Board of Directors shall be irrevocably appointed the agent for the Association to adjust claims arising under insurance policies purchased by the Board of Directors and to execute and deliver releases upon the payment of claims.

ARTICLE XIV Finances and Budget

§14.01 GENERAL PROVISIONS

The Board of Directors shall decide all matters pertaining to the finances of the Association and it shall place all income in the General Fund of the Association. The Board of Directors shall not permit the solicitation of funds in the name of the Association unless all of the funds so solicited and raised be placed in the General Fund of the Association. All monies received shall be deposited to the credit of the Association in a bank or financial institution designated by the Board of Directors and all disbursements shall be made by check. The Board of Directors shall not permit the disbursement of Association funds for other than the conduct of Association activities. No Director, Officer or Member of the Association shall receive directly or indirectly any salary, compensation or emolument from the Association for services rendered as a Director, Officer or Member.

§14.02 FISCAL YEAR

The fiscal year of the Association shall be the calendar year, beginning on the first day of January and ending on the last day of December, unless otherwise determined by the Board of Directors.

§14.03 GENERAL FUND

- A. The Association shall keep all monies which it may collect from assessments other than special assessments together with all other monies which it is required to add to the general fund pursuant the provisions hereof in a separate fund to be called the General Fund and shall use the monies in the General Fund only for the following purposes:
 - 1. Payment of the cost of acquiring, developing, maintaining, and improving Common Areas, recreational and other facilities on Common Areas and elsewhere, special use areas, and Association owned recreational or service areas available for use by all of the Owners.

2. Payment of taxes levied against Common Areas, special use areas, and Association owned recreational or service areas, and the improvements thereon.
 3. Payment of the cost of providing electricity, water and sewer service.
 4. Payment of the cost of insurance, including but not limited to, insurance protecting the Association, its directors, officers, and committees, against liability arising out of their function and activities in the administration of the Association.
 5. Payment of the cost of enforcing the provisions contained in these By-Laws, Rules and Regulations, Architectural Control Committee Rules and Regulations, and the covenants and restrictions contained in the Declaration.
 6. Payment of the reasonable expenses and fees of the Board of Directors, Architectural Control Committee, and such other committees as shall from time to time be appointed to serve the Association.
 7. Payment for other services or facilities which the Board of Directors deems to be of general benefit to the Owners.
 8. Payment of all costs incurred in collecting assessments.
 9. Payment of any expense reasonably incurred by the Board of Directors in carrying out any function for which it has been given responsibility hereunder.
- B. Included among the monies which are to be paid into the General Fund are all regular assessments, charges, penalties, Architectural Control Committee fees, interest on amounts payable into the General Fund, and payments to reimburse the Association for monies expended from the General Fund.

§14.04 RESERVE FUND

The Board of Directors shall build up and maintain a reasonable Reserve Fund for working capital, operations, contingencies and replacements. Extraordinary expenditures not originally included in the annual budget which may become necessary during the year may be charged first against such Reserve Fund. If the reserves are deemed to be inadequate for any reason, including non-payment of any Member's assessment, the Board of Directors may at any time levy special assessments against the Members.

§14.05 PREPARATION AND APPROVAL OF BUDGET

On or before the first day of November of each year or sixty (60) days before the commencement of each fiscal year if other than the calendar year, the Board of Directors shall adopt an annual budget for the Association containing an estimate of the total amount considered necessary to pay the cost of maintenance, management, operation, repair and replacement of the Common Area; and the cost of wages, materials, insurance premiums, services, supplies and other expenses that may be declared necessary by the Board of Directors. Such budget shall also include such reasonable amounts as the Board of Directors considers necessary to provide working capital, general operating reserve and reserves for contingencies and replacements. The Board of Directors shall make reasonable efforts to meet the deadlines set forth above, but compliance with such deadlines shall not be a condition precedent to the effectiveness of any budget.

§14.06 EFFECT OF FAILURE TO PREPARE OR ADOPT BUDGET

The failure or delay of the Board of Directors to prepare or adopt a budget for any fiscal year shall not constitute a waiver or release in any manner of a Member's obligation to pay his

assessment as herein provided whenever the same shall be determined and, in the absence of any annual budget or adjusted budget, each Member shall continue to pay the annual assessment at the rate established for the previous fiscal year until the new annual or adjusted budget shall have been adopted.

§14.07 REJECTION OF BUDGET AND LIMITATIONS ON EXPENDITURES

Anything herein to the contrary notwithstanding, the Association, by majority vote of all the votes in the Association, may reject any budget or capital expenditure approved by the Board of Directors, within thirty (30) days after the approval by the Board of Directors.

§14.08 COLLECTION OF ASSESSMENTS

The Board of Directors shall take prompt action to collect any assessments due from any Member which remain unpaid for more than thirty (30) days from the due date for payment thereof.

§14.09 ANNUAL AUDIT

A special committee consisting of three (3) or more Members shall be appointed to audit the books and records of the Association. The President, Treasurer or other signatories of checks shall not be eligible to serve on this committee. The committee shall review the Association's books and records at least once annually prior to the Annual Meeting of Members and attach a statement of their findings to the annual financial statement of the President and Treasurer; or may, if directed by the Board of Directors, secure the services of a certified public accountant to accomplish such review.

§14.10 EXECUTION OF INSTRUMENTS

The Board of Directors may, in its discretion, determine the method and designate the signatory officer or officers, or other person or persons, to execute any corporate instrument or document, or to sign the corporate name without limitation, except where otherwise provided by law, and such execution or signature shall be binding upon the Association.

§14.11 CHECKS, DRAFTS, OR DEMAND FOR MONEY

All checks, drafts, orders for payment, demands for money and notes, or other evidence of indebtedness, issued in the name of or payable to the Association shall be signed by the Association Treasurer and such other officers or person or persons as the Board of Directors may from time to time designate by resolution. All checks shall require at least two (2) signatures of Executive Committee members.

§14.12 CONTRACTS

The Board of Directors, except as in these By-Laws may otherwise provide, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name and on behalf of the Association; such authority must be confined to specific instances; and unless so authorized by the Board of Directors, no officer, agent, or employee shall have any power or authority to bind the Association by any contract or engagement or to pledge its credit or to render it liable for any purpose or to any amount.

ARTICLE XV
Examination of Documents

§15.01 EXAMINATION OF BOOKS OF ACCOUNT

Members shall have the right to examine the books of account of the Association at reasonable times on business days. Financial statements, general ledgers, the accounts receivable ledger, accounts payable ledger, check ledgers, insurance policies, contracts, and invoices of the Association for the current and prior year, and a list of delinquencies of ninety (90) days or more shall be available for examination by Members at convenient hours at a place designated by the Board of Directors; provided that the Board of Directors may require such Members to furnish a duly executed and acknowledged affidavit stating that the information is requested in good faith and for the protection of the interests of the Association or its Members or both; and that such Members pay for administrative costs incurred by the Association with respect to such examination. Copies of these items shall be provided to any Member upon such Member's request, subject to such Member's payment of a reasonable fee for duplicating, postage, stationery, and other administrative costs associated with handling the request; provided, however, that the Association's most current financial statement shall be available to any Member at no cost or on twenty-four hour loan at a convenient location designated by the Board of Directors.

§15.02 EXAMINATION OF MINUTES OF MEETING

Minutes of meetings of the Board of Directors and the Association for the current and prior year shall be available for examination by Members at convenient hours at a place designated by the Board of Directors. Minutes of all meetings shall include the recorded vote of each Board Member on all motions except motions voted on in executive session. Copies of meeting minutes shall be provided to any Member upon the Member's request, provided the Member pay a reasonable fee for duplicating, postage, stationery, and other administrative costs associated with handling the request.

§15.03 EXAMINATION OF PROXIES AND VOTING RECORDS

- A. Members shall have the right to examine proxies, tally sheets, ballots, Members' check-in lists, voting lists, and the certificate of election for a period of one (1) year following any Association meeting; provided that the Board of Directors may require the Member or Members to furnish to the Association a duly executed and acknowledged affidavit stating that the information is requested in good faith for the protection of the interest of the Association or its Members or both.
- B. Proxies and ballots may be destroyed following the one (1) year period. Copies of tally sheets, Members' check-in lists, voting lists, and the certificate of election from the most recent Association meeting shall be provided to any Member upon the Member's request, provided that the Member pay a reasonable fee for duplicating, postage, stationery, and other administrative costs associated with handling the request.
- C. Members may file a written request with the Board of Directors to examine other documents. The Board of Directors shall give written authorization or written refusal with an explanation of the refusal within thirty (30) calendar days of receipt of the request.

§15.04 EXAMINATION OF ASSOCIATION DOCUMENTS

The Association shall keep in its principal office for the transaction of business the original or a copy of the Declaration, the Articles of Incorporation, the By-Laws, the Rules and Regulations, all public reports as amended or otherwise altered to date, certified by the Secretary, which shall be open to inspection by the Members at all reasonable times on business days. The Declarant shall provide copies of those documents to Members, prospective purchasers and their prospective agents during normal business hours, upon payment to the Declarant a reasonable charge to defray any administrative or duplicating costs.

ARTICLE XVI

Parliamentary Authority

§16.01 The rules contained in the current edition of Robert's Rules of Order Newly Revised shall govern the proceedings of all meetings of the Association in all cases to which they are applicable and which they are not inconsistent with these By-Laws and any special rules of order the Association may adopt.

ARTICLE XVII

Distribution of Assets Upon Dissolution of Association

§17.01 Upon dissolution of the Association and after all outstanding debts and claims have been satisfied, the Board of Directors shall distribute the assets of the Association on an equitable basis to all of the Members.

ARTICLE XVIII

Advisory Council

§18.01 The Board of Directors may elect to appoint an Advisory Council consisting of individuals with a demonstrated interest in the welfare and continued viability of the Association, but who for reasons of health, time constraints, or other reasons prefer not to serve on the Board of Directors. Advisory Councilors may attend regular monthly or called special meetings of the Board of Directors as ex-officio members. However, Advisory Councilors shall have no voting privileges on the Board of Directors.

ARTICLE XIX

Miscellaneous

§19.01 INFORMAL ACTION

Any action required to be taken or which may be taken at a meeting of the Members, Directors or members of the Executive Committee, may be taken without a meeting if a consent in writing setting forth the action so taken shall be signed by a majority of all the Members, Directors or members of the Executive Committee, as the case may be, entitled to vote with respect to the subject matter thereof, and such consent shall have the same force and effect as a majority vote of the Members, Directors, or the Executive Committee, as the case may be, at a meeting of said body.

§19.02 CORPORATE SEAL

The corporate seal shall be circular in form and shall contain the name of the Corporation, the words "TEXAS," and "CORPORATE SEAL" or an image of the Lone Star. The seal may be used by causing it or a facsimile to be impressed or affixed or in any other manner reproduced. The corporate seal may be altered by order of the Board of Directors at any time.

§19.03 SAFETY DEPOSIT BOX

The Association should maintain a safety deposit at a financial institution designated by the Board of Directors for the preservation and safekeeping of important documents. The Secretary shall maintain a current inventory of the contents of the safety deposit box. The President and Secretary and/or the Treasurer shall each have possession of a key to the safety deposit box.

§19.04 CAPTIONS

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

§19.05 GENDER

The use of the masculine gender in these By-Laws shall be deemed to include the feminine and neuter genders and the use of the singular shall be deemed to include the plural, and vice versa, whenever the context so requires.

§19.06 NOTICES

All notices, demands for payment, bills, statements or other communications under these By-Laws shall be in writing and shall be deemed to have been duly given if delivered personally or if sent by registered or certified mail, return receipt requested, postage prepaid.

- A. If to a Member, at the single address which the Member shall designate in writing and file with the Secretary, or
- B. If to the Association, the Board of Directors, or the Executive Committee, at the principal office of the Declarant or at such other address as shall be designated by notice in writing to the Members pursuant to this Section.
- C. If a Lot is owned by more than one person, each such person who so designates a single address in writing to the Secretary shall be entitled to receive all notices hereunder.

§19.07 INTERPRETATION AND SEVERABILITY

In case any provision of these By-Laws shall be held invalid, such invalidity shall not render invalid any other provision hereof which can be given effect. Nothing in these By-Laws shall be deemed or construed to authorize the Association or Board of Directors to conduct or engage in any active business for profit on behalf of any or all of the Members.

§19.08 INDEMNIFICATION

The Association shall indemnify every Director and Officer and his executors and administrators against all expenses reasonably incurred by or imposed on him in connection with any action, suit or proceeding to which he may be made a party by reason of being or having been a Director or Officer of the Association, except in relation to matters as to which he shall be finally adjudged in such action, suit or proceeding to be liable for negligence or misconduct; and in the absence of

such final adjudication, indemnification shall be provided only in connection with such matters as to which the Association is advised by its legal counsel that the person to be indemnified shall not be exclusive of any other rights to which such person may be entitled. The Board of Directors may procure such policy or policies of insurance as it shall deem appropriate to provide for the indemnification set forth above and the cost of such insurance shall be deemed a common expense.

§19.09 APPLICABILITY OF BY-LAWS

The provisions of these By-Laws are applicable to Waterwood Estates and to the use and occupancy thereof. All present and future Owners, Members, mortgagees, lessees, tenants and other interests in the property and their employees, and any other persons who may use the facilities of Waterwood Estates in any manner are subject to these By-Laws, the Declaration and Rules and Regulations of the Association. The acceptance of a lease, sublease, assignment or any other form of voluntary or involuntary alienation or the act of occupancy of any property or other interest in Waterwood Estates or the use of any of the facilities of Waterwood Estates shall constitute an agreement that these By-Laws, the Rules and Regulations and the provisions of the Declaration, as they may be amended from time to time, are accepted, ratified, and will be complied with.

§19.10 GOVERNING LAW

These By-Laws are to be governed by and construed according to the laws of the State of Texas. These By-Laws shall be modified to comply with any regulations or laws heretofore or hereinafter enacted by a governmental authority having jurisdiction of the subject matter covered hereby.

**ARTICLE XX
A m e n d m e n t s**

§20.01 AMENDMENT PROCEDURE

The By-Laws of the Association may be amended, repealed or altered in whole or in part, by an affirmative two-thirds vote of the Board of Directors at any regular meeting of the Board of Directors or special meeting called for that purpose, subject to the following provisions:

- A. the proposed amendment or amendments shall first be submitted in writing at a previous regular meeting of the Board of Directors; and
- B. a written or printed notice giving the full text of the proposed amendment or amendments shall be delivered in person to each Member of record of the Association or mailed to the last known post office address of each Member of record at least fifteen (15) days prior to the date of the Board of Directors meeting at which the proposed amendment or amendments are to be voted on, a quorum of the Board of Directors being necessary for action.

§20.02 EFFECTIVE DATE OF ADOPTED AMENDMENT OR AMENDMENTS

Any amendment or amendments which are adopted according to the provisions of Article XX, §20.01 shall go into full force and effect and be binding upon the Association and all classes of its members immediately upon adoption unless the motion to adopt the amendment or amendments

specifies another time for becoming effective, or the Board of Directors has set such a time by a previously adopted motion.

SIGNATURES AND ATTESTATION

IN WITNESS WHEREOF, the undersigned Directors of Waterwood Community Association, Inc. have adopted these By-Laws this 29th day of January, 1997.

Paul Gathright, Director

Reagan Roy, Director

Ronny C. Jackson, Director

Robert Stegall, Director

Doug Norwood, Director

Denzil Thompson, Director

Al Peterson, Director

Belinda Vincent, Director

Steve Pocsik, Director

I, Doug Norwood, do hereby certify that I am the duly elected and qualified Secretary and the keeper of the records and corporate seal of Waterwood Community Association, a non-profit corporation organized and existing under the laws of the State of Texas, and that the above is a true and correct copy of the By-Laws of Waterwood Community Association, Inc. duly adopted at a meeting of the Board of Directors thereof, convened and held in accordance with law and the Bylaws of said Corporation on the 29th day of January 1997, and that such By-Laws are now in full force and effect.

IN WITNESS WHEREOF, I have affixed my name as Secretary of the Corporation and have caused the corporate seal of said Corporation to be hereunto affixed, this 29th day of January 1997.

Doug Norwood, Secretary

CORPORATE SEAL