

Bylaws
The Waters Condominium Association

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**BYLAWS
OF
THE WATERS CONDOMINIUM ASSOCIATION**

(A Texas Condominium Association)

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BYLAWS OF THE WATERS CONDOMINIUM ASSOCIATION

(A Texas Condominium Association)

ARTICLE 1 INTRODUCTION

1.1. PROPERTY. These Bylaws provide for the governance of The Waters at Horseshoe Bay Resort Condominium, located in an unincorporated portion of Llano County, Texas, as shown on Exhibit A, (the "**Property**"), which is subject to and more fully described in the Declaration of The Waters at Horseshoe Bay Resort Condominium, recorded or to be recorded in the Real Property Records of Llano County, Texas (the "**Declaration**").

1.2. PARTIES TO BYLAWS. All present or future Owners and all other persons who use or occupy the Property in any manner are subject to these Bylaws, the Declaration, and the other Documents as defined in the Declaration. The mere acquisition or occupancy of a Unit will signify that these Bylaws are accepted, ratified, and will be strictly followed.

1.3. DEFINITIONS. Words and phrases defined in the Declaration have the same meanings when used in these Bylaws. Article 1 of the Declaration is incorporated herein by reference.

1.4. NONPROFIT PURPOSE. The Association is organized to be a nonprofit corporation.

1.5. DECLARANT CONTROL. Notwithstanding anything to the contrary in these Bylaws, a number of provisions are modified by the Declarant's reservations in Appendix B of the Declaration during the Declarant Control Period and the Development Period, as defined in the Declaration, including the number, qualification, appointment, removal, and replacement of directors.

***During the Declarant Control & Development Periods,
Appendix B of the Declaration has priority over these Bylaws.***

1.6. GENERAL POWERS AND DUTIES. The Association, acting through the Board, has the powers and duties necessary for the administration of the affairs of the Association and for the operation and maintenance of the Property as may be required or permitted by the Documents and applicable law. The Association may do any and all things that are lawful and which are necessary, proper, or desirable in operating for the best interests of its Members, subject only to the limitations upon the exercise of such powers as are expressly set forth in the Documents.

ARTICLE 2 BOARD OF DIRECTORS

2.1. NUMBER AND TERM OF OFFICE. After the Declarant Control Period, the Board will consist of five persons. Upon election, each director will serve a term of two years. Three directors will be elected in odd-

During the Development & Declarant Control Periods, Appendix B of the Declaration has priority over these Bylaws.

numbered years. Two directors will be elected in even-numbered years. A director takes office upon the adjournment of the meeting or balloting at which he is elected or appointed and, absent death, ineligibility, resignation, or removal, will hold office until his successor is elected or appointed. The number of directors may be changed by amendment of these Bylaws, but may not be less than three. To establish staggered terms, at the first election after the organizational meeting, the candidates receiving the most votes will serve 2-year terms, and the candidates receiving the next-highest votes will serve initial terms of one year. In an odd numbered year, the three highest vote getters will serve 2-year terms, and the fourth and fifth highest vote getters will serve 1-year terms. In an even numbered year, the two highest vote getters will serve 2-year terms, and the next three highest vote getters will serve 1-year terms. Thereafter, their successors will serve 2-year terms. If the Board is ever elected en masse, the same method will be used to re-establish staggered terms.

2.2. QUALIFICATION. The following qualifications apply to the election or appointment of persons to the Board to the extent candidates are available and qualified. The following qualifications may be waived or modified on an election by election basis only if an insufficient number of qualified candidates are available.

2.2.1. Owners. At least a majority of the directors must be Members of the Association or spouses of Members.

2.2.2. Entity Member. If a Unit is owned by a legal entity, such as a partnership or corporation, any officer, partner, agent, or employee of that entity Member is eligible to serve as a director and is deemed to be a Member for the purposes of this Section. If the relationship between the entity Member and the director representing it terminates, that directorship will be deemed vacant.

2.2.3. Delinquency. No person may be elected or appointed as a director if any Assessment against the person or his Unit is more than 30 days' delinquent at the time of election or appointment, provided he has been given notice of the delinquency and a reasonable opportunity to cure it.

2.2.4. Violations. No person may be elected or appointed as a director if the person or his Unit – at the time of election or appointment – has not cured a violation of the Documents for which the Association has given notice and a reasonable opportunity to cure.

2.2.5. Litigation. No person may be elected or appointed as a director if the person is a party adverse to the Association, the Board, or a committee of the Association in pending litigation to which the Association, the Board, or a committee is a party.

See Appendix B of the Declaration for the number and qualifications of directors during the Declarant Control Period.

2.3. ELECTION. Directors will be elected by the Members of the Association. The election of directors will be conducted at the annual meeting of the Association, at any special meeting called for that purpose, or by any method permitted by applicable law, such as Section 2.13B of the Texas Nonprofit Corporation Act, which methods may include, without limitation, mail, facsimile transmission, electronic mail, or a combination of any of these.

2.4. VACANCIES. Vacancies on the Board caused by any reason, except the removal of a director by a vote of the Association, are filled by a vote of the majority of the remaining directors, even though less than a quorum, at any meeting of the Board. Each director so elected serves until the next meeting of the Association, at which time a successor will be elected to fill the remainder of the term.

2.5. REMOVAL OF DIRECTORS.

During the Development & Declarant Control Periods, Appendix B of the Declaration has priority over these Bylaws.

2.5.1. Removal by Members. At any annual meeting or special meeting of the Association, any one or more of the directors may be removed with or without cause by Members representing at least two-thirds of the votes present in person or by proxy at the meeting, and a successor may then and there be elected to fill the vacancy thus created. Any director whose removal has been proposed by the Members must be given an opportunity to be heard at the meeting.

2.5.2. Removal by Directors. A director may not be removed by the officers or by the remaining directors, except for the following limited reasons for which a director may be removed by at least a majority of the other directors at a meeting of the Board called for that purpose:

- a. The director is a party adverse to the Association or the Board in pending litigation to which the Association or the Board is a party, provided the Association did not file suit to effect removal of the director.
- b. The director's account with the Association has been delinquent for at least 90 days or has been delinquent at least three times during the preceding 12 months, provided he was given notice of the default and a reasonable opportunity to cure.
- c. The director has refused or failed to attend three or more meetings of the Board during the preceding 12 months, provided he was given proper notice of the meetings.
- d. The director has refused or failed to cure a violation of the Documents for which he has been given notice, a reasonable opportunity to cure, and an opportunity to request a hearing before the Board.

2.5.3. Removal by Officers. A director may not be removed by officers of the Association, acting in their capacity of officers of the Association, under any circumstance.

2.6. MEETINGS OF THE BOARD.

2.6.1. Organizational Meeting of the Board. Within 10 days after the annual meeting, the directors will convene an organizational meeting for the purpose of electing officers. The time and place of the meeting will be fixed by the Board and announced to the directors.

2.6.2. Regular Meetings of the Board. Regular meetings of the Board may be held at a time and place that the Board determines, from time to time, but at least one such meeting must be held annually. Notice of regular meetings of the Board will be given to each director, personally or by telephone, written, or electronic communication, at least ten days prior to the date of the meeting.

2.6.3. Special Meetings of the Board. Special meetings of the Board may be called by the president or, if he is absent or refuses to act, by the secretary, or by any two directors. At least three days notice will be given to each director, personally or by telephone, written, or electronic communication, which notice must state the place, time, and purpose of the meeting.

2.6.4. Emergency Meetings. In case of emergency, the Board may convene a meeting after making a diligent attempt to notify each director by any practical method.

2.6.5. Conduct of Meetings. The president presides over meetings of the Board and the secretary keeps, or causes to be kept, a record of resolutions adopted by the Board and a record of transactions and proceedings occurring at meetings. When not in conflict with applicable law or the Documents, the then current edition of Robert's Rules of Order governs the conduct of the meetings of the Board.

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2.6.6. Quorum. At meetings of the Board, a majority of directors constitutes a quorum for the transaction of business, and the acts of the majority of the directors present at a meeting at which a quorum is present are the acts of the Board. If less than a quorum is present at a meeting of the Board, the majority of those present may adjourn the meeting from time to time. At any reconvened meeting at which a quorum is present, any business that may have been transacted at the meeting as originally called may be transacted without further notice. Directors may not participate by proxy at meetings of the Board.

2.6.7. Minutes. The written report of a Board meeting is not the minutes of the meeting until approved by the directors at a future meeting. The minutes must report actions taken by the Board, but need not report the substance of discussion. The Board is not required to distribute minutes of its meetings to the Members.

2.6.8. Voting. A director who is also an officer of the Association, even the presiding officer, is expected to participate and to vote in the manner of every other director. The president of the Association is not prohibited from voting and is not limited to tie-breaking votes.

2.6.9. Open Meetings. Regular and special meetings of the Board are open to Members of the Association, subject to the following provisions to the extent permitted, required, or not prohibited by applicable law:

- a. No audio or video recording of the meeting may be made, except by the Board or with the Board's prior express consent.
- b. Members who are not directors may not participate in Board deliberations under any circumstances, and may not participate in Board discussions unless the Board expressly so authorizes at the meeting.
- c. The Board may adjourn any meeting and reconvene in executive session to discuss and vote on personnel matters, litigation in which the Association is or may become involved, and orders of business of a similar or sensitive nature. The nature of business to be considered in executive session will first be announced in open session.
- d. The Board may prohibit attendance by non-members, including representatives, proxies, agents, and attorneys of Members.
- e. The Board may prohibit attendance by any person who disrupts meetings or interferes with the conduct of Board business.
- f. The Board may but is not required to publish to Members the time, date, and place of Board meetings, but will provide the information if requested in writing by a Member on a meeting by meeting basis.

2.6.10. Telephone Meetings. Members of the Board or any committee of the Association may participate in and hold meetings of the Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in such meeting constitutes presence in person at the meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

2.6.11. Action Without a Meeting. Any action required or permitted to be taken by the Board at a meeting may be taken without a meeting, if all directors individually or collectively consent in writing to such action. The written consent must be filed with the minutes of Board meetings. Action by

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written consent has the same force and effect as a unanimous vote. This Section does not apply to actions that require meetings under applicable law.

2.7. LIABILITIES AND STANDARD OF CARE. In performing their duties, the directors are required to exercise certain standards of care and are subject to certain liabilities, including but not limited to the following provisions of State law: Section 82.103(a) and (f) of the Act, and Articles 1396-2.20.D., -2.25, -2.26, -2.28, -2.29, and -2.30 of the Texas Non-Profit Corporation Act.

2.8. POWERS AND DUTIES. The Board has all the powers and duties necessary for the administration of the Association and for the operation and maintenance of the Property. The Board may do all acts and things except those which, by law or the Documents, are reserved to the Members and may not be delegated to the Board. Without prejudice to the general and specific powers and duties set forth in applicable laws or the Documents, or powers and duties as may hereafter be imposed on the Board by resolution of the Association, the powers and duties of the Board include, but are not limited to, the following:

2.8.1. Appointment of Committees. The Board, by resolution, may from time to time designate standing or ad hoc committees to advise or assist the Board with its responsibilities. The resolution may establish the purposes and powers of the committee created, provide for the appointment of a chair and committee members, and may provide for reports, termination, and other administrative matters deemed appropriate by the Board. Members of committees will be appointed from among the Owners and Residents.

2.8.2. Manager. The Board may employ a manager or managing agent for the Association, at a compensation established by the Board, to perform duties and services authorized by the Board.

2.9. FIDELITY BONDS. Any person handling or responsible for Association funds, including officers, agents, and employees of the Association, must furnish adequate fidelity bonds. The premiums on the bonds may be a common expense of the Association.

ARTICLE 3 **OFFICERS**

3.1. DESIGNATION. The principal officers of the Association are the president, the vice-president, the secretary, and the treasurer. The Board may appoint one or more vice-presidents and other officers and assistant officers as it deems necessary. The president and secretary must be directors. Other officers may, but need not, be Members or directors. Any two offices may be held by the same person, except the offices of president and secretary. If an officer is absent or unable to act, the Board may appoint a director to perform the duties of that officer and to act in place of that officer, on an interim basis.

3.2. ELECTION OF OFFICERS. The officers are elected no less than annually by the directors at the organizational meeting of the Board and hold office at the pleasure of the Board. Except for resignation or removal, officers hold office until their respective successors have been designated by the Board.

3.3. REMOVAL AND RESIGNATION OF OFFICERS. A majority of directors may remove any officer, with or without cause, at any regular meeting of the Board or at any special meeting of the Board called for that purpose. A successor may be elected at any regular or special meeting of the Board called for that purpose. An officer may resign at any time by giving written notice to the Board. Unless the notice of resignation states otherwise, it is effective when received by the Board and does not require acceptance by the Board. The resignation or removal of an officer who is also a director does not constitute resignation or removal from the Board.

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3.4. STANDARD OF CARE. In performing their duties, the officers are required to exercise the standards of care provided by applicable law, such as Section 82.103(a) and (f) of the Act and Article 1396-2:20.D. of the Texas Non-Profit Corporation Act.

3.5. DESCRIPTION OF PRINCIPAL OFFICES.

3.5.1. President. As the chief executive officer of the Association, the president: (1) presides at all meetings of the Association and of the Board; (2) has all the general powers and duties which are usually vested in the office of president of a corporation organized under the laws of the State of Texas; (3) has general supervision, direction, and control of the business of the Association, subject to the control of the Board; and (4) sees that all orders and resolutions of the Board are carried into effect.

3.5.2. Vice-President. The vice-president acts in place of the president in event of the president's absence, inability, or refusal to act. The vice-president also exercises and discharges any duty required of the vice-president by the Board.

3.5.3. Secretary. The secretary: (1) keeps the minutes of all meetings of the Board and of the Association; (2) has charge of such books, papers, and records as the Board may direct; (3) maintains a record of the names and addresses of the Members for the mailing of notices; and (4) in general, performs all duties incident to the office of secretary.

3.5.4. Treasurer. The treasurer: (1) is responsible for Association funds; (2) keeps full and accurate financial records and books of account showing all receipts and disbursements; (3) prepares all required financial data and tax returns; (4) deposits all monies or other valuable effects in the name of the Association in depositories as may from time to time be designated by the Board; (5) prepares the annual and supplemental budgets of the Association; (6) reviews the accounts of the managing agent on a monthly basis in the event a managing agent is responsible for collecting and disbursing Association funds; and (7) performs all the duties incident to the office of treasurer.

3.6. AUTHORIZED AGENTS. Except when the Documents require execution of certain instruments by certain individuals, the Board may authorize any person to execute instruments on behalf of the Association. In the absence of Board designation, the president and the secretary are the only persons authorized to execute instruments on behalf of the Association.

ARTICLE 4
MEETINGS OF THE ASSOCIATION

4.1. ANNUAL MEETING. An annual meeting of the Association will be held during the month of July of each year. At annual meetings the Members will elect directors in accordance with these Bylaws. The Members may also transact such other business of the Association as may properly come before them.

4.2. SPECIAL MEETINGS. It is the duty of the president to call a special meeting of the Association if directed to do so by a majority of the Board or by one or more petitions signed by Owners of at least 10 percent of the Units. If the petition process is used, petitions may be in any form that is customary for the time. The Board may not require a specific form of petition, nor require that the petition be offered to every Member of the Association. Signatures on petitions need not be notarized or witnessed. An electronic or faxed petition is acceptable if the "signer's" identity is reasonably discernible. Notice of the special meeting must be given within 30 days after the Board resolution or receipt of petition. If the Board fails or refuses to call the special meeting in a timely manner, an ad hoc committee of Owners may do so provided the notice of meeting names the ad hoc committee and its individual members, and further provided that the notice is delivered to an Owner of every Unit in accordance with these Bylaws. The notice of any special meeting must state the

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time, place, and purpose of the meeting. No business, except the purpose stated in the notice of the meeting, may be transacted at a special meeting.

4.3. PLACE OF MEETINGS. Meetings of the Association may be held at the Property or at a suitable place convenient to the Members, as determined by the Board.

4.4. NOTICE OF MEETINGS. At the direction of the Board, written notice of meetings of the Association will be given to an Owner of each Unit at least 10 days but not more than 60 days prior to the meeting. Notices of meetings will state the date, time, and place the meeting is to be held. Notices will identify the type of meeting as annual or special, and will state the particular purpose of a special meeting. Notices may also set forth any other items of information deemed appropriate by the Board.

4.5. INELIGIBILITY. The Board may determine that no Member may vote at meetings of the Association if the Member's financial account with the Association is in arrears 45 days before the date of a meeting of the Association at which Members will vote, provided each ineligible Member is given notice of the arrearage and an opportunity to become eligible. The Board may specify the manner, place, and time for payment for purposes of restoring eligibility. A determination of Members entitled to vote at a meeting of the Association is effective for any adjournment of the meeting, provided the date of the adjourned meeting is not more than 45 days after the original meeting.

4.6. VOTING MEMBERS LIST. The Board will prepare and make available a list of the Association's voting Members in accordance with applicable law, such as Art. 1396-2.11B of the Texas Non-Profit Corporation Act.

4.7. QUORUM. At any meeting of the Association, the presence in person or by proxy of Members representing at least 10 percent of the Units in the Property constitutes a quorum. Members present at a meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal, during the course of the meeting, of Members constituting a quorum.

4.8. LACK OF QUORUM. If a quorum is not present at any meeting of the Association for which proper notice was given, Members representing at least a majority of the votes present at the meeting, although not constituting a quorum, may vote to recess the meeting for not more than 24 hours in order to attain a quorum, provided the place of the meeting remains as stated in the notice. If the meeting is adjourned without attainment of a quorum, notice of a new meeting for the same purposes within 15 to 30 days may be given to an Owner of each Unit, at which meeting the Members present in person or by proxy (even if representing less than 10 percent of the Units) will be sufficient to constitute a quorum for the purposes of that meeting.

4.9. PARTICIPATION. Members may participate in person or by proxy at meetings of the Association. A Member who participates is deemed "present" and may be counted towards a quorum unless the Member participates for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

4.10. VOTING BY OWNERS.

4.10.1. Philosophy of Voting. Government elections are decided by whomever gets to the polls, without required levels of voter participation. In corporations and condominium associations, quorums and minimum levels of participation are required and customary. Although high levels of Member participation are desirable in Association matters, as in government, mandating high levels of Member participation for a resort development with many non-resident Owners is not realistic. The voting system established by Declarant for the Property allows the Owners to vote in every election and on any decision that requires the participation of Association Members.

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4.10.2. Owner's Right to Participate. An Owner has the right to participate in person or by proxy in meetings and votes of the Association. By accepting an interest in or title to a Unit, each Owner acknowledges his right to participate in the governance of the Association, and further acknowledges that some acts and decisions of the Association require high levels of participation by Association Members.

4.10.3. Voting. One vote is appurtenant to each Unit. The total number of votes equals the total number of Units in the Property. The weight of each vote is shown on Appendix C of the Declaration. If additional property is made subject to the Declaration, the total number of votes will be increased automatically by the number of additional Units and the weights of the votes will be adjusted by amendment of Appendix C of the Declaration. Votes may be cast in person or by actual proxy. The vote of Members representing at least a majority of the weighted votes cast at any meeting at which a quorum is present (by any combination of persons and proxies) binds all Members for all purposes, except when a higher percentage is required by these Bylaws, the other Documents, or by law. Cumulative voting is prohibited.

4.10.4. Co-Owned Units. If a Unit is owned by more than one Member, the vote appurtenant to that Unit is cast in accordance with applicable law, such as Section 82.110(a) of Act, which is summarized as follows. If only one of the multiple Owners of a Unit is present at a meeting of the Association, that person may cast the vote allocated to that Unit. If more than one of the multiple Owners is present, the vote allocated to that Unit may be cast only in accordance with the Owners' unanimous agreement. Multiple Owners are in unanimous agreement if one of the multiple Owners casts the vote allocated to a Unit and none of the other Owners makes prompt protest to the person presiding over the meeting.

4.10.5. Entity-Owned Units. If a Unit is owned by a corporation or limited liability company, the vote appurtenant to that Unit may be cast by any officer of the corporation in the absence of the corporation's written appointment of a specific person to exercise its vote. The vote of a partnership may be cast by any general or managing partner in the absence of the partners' written appointment of a specific person. The person presiding over a meeting or vote may require reasonable evidence that a person voting on behalf of a corporation or partnership is qualified to vote.

4.10.6. Association-Owned Units. Votes allocated to a Unit owned by the Association may be counted towards a quorum and for all ballots and votes except the election or removal of directors. The vote appurtenant to a Unit owned by the Association is exercised by the Board.

4.11. VOTING BY PROXY.

4.11.7. Actual Proxies. This Subsection applies to the appointment of an actual proxy by an Owner. The Association may suggest but may not require the use of a specific form of actual proxy for use by Owners. To be valid, each actual proxy must (1) be signed and dated by a Member or his attorney-in-fact; (2) identify the Unit to which the vote is appurtenant; (3) name the person or title (such as "presiding officer") in favor of whom the proxy is granted, such person having agreed to exercise the proxy; (4) identify the meeting for which the proxy is given; (5) not purport to be revocable without notice; and (6) be delivered to the secretary, to the person presiding over the Association meeting or balloting for which the proxy is designated, or to a person or company designated by the Board. Unless the proxy specifies a shorter or longer time, it terminates one year after its date. Perpetual or self-renewing proxies are permitted, provided they are revocable. To revoke a proxy, the granting Member must give actual notice of revocation to the person presiding over the Association meeting or balloting for which the proxy is designated. Unless revoked, any proxy designated for a meeting which is adjourned, recessed, or rescheduled is valid when the meeting reconvenes. A proxy may be delivered by any conventional method, including fax or email. In evaluating the validity of a proxy, the Board may challenge a proxy if the means by which the proxy was

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delivered raises doubts about its authenticity. The vote of a Unit for which an invalid proxy was received may not be exercised under a deemed proxy, but may be exercised by the Owner or by an actual proxy validly appointed by the Owner.

4.11.8. Non-Voting. An Owner who does not want his Unit's vote to be cast on a matter may (1) attend the Association meeting without voting, (2) sign and return a ballot marked "Not Voting" or similar, or (3) instruct the Association's presiding officer to use the Owner's deemed proxy for quorum purposes only. Any of these acts constitutes the Owner's affirmative participation and prevents use of the deemed proxy as to the Owner's Unit.

4.12. CONDUCT OF MEETINGS. The president, or any person designated by the Board, presides over meetings of the Association. The secretary keeps, or causes to be kept, the minutes of the meeting which should record all resolutions adopted and all transactions occurring at the meeting, as well as a record of any votes taken at the meeting. The person presiding over the meeting may appoint a parliamentarian. The then current edition of Robert's Rules of Order governs the conduct of meetings of the Association when not in conflict with the Documents. Votes should be tallied by tellers appointed by the person presiding over the meeting.

4.13. ORDER OF BUSINESS. Unless the notice of meeting states otherwise, or the assembly adopts a different agenda at the meeting, the order of business at meetings of the Association is as follows:

- Determine votes present by roll call or check-in procedure
- Announcement of quorum
- Proof of notice of meeting
- Approval of minutes of preceding meeting
- Reports
- Election of directors (when required)
- Unfinished or old business
- New business

4.14. ADJOURNMENT OF MEETING. At any meeting of the Association, a majority of the Members present at that meeting, either in person or by proxy, may adjourn the meeting to another time and place.

4.15. ACTION WITHOUT MEETING. Subject to Board approval, any action which may be taken by a vote of the Members at a meeting of the Association may also be taken without a meeting by written consents. The Board may permit Members to vote by ballots delivered by any method allowed by applicable law, such as Section 2.13B of the Texas Non-Profit Corporation Act, which may include hand delivery, mail, fax, email, or any combination of these. Written consents by Members representing at least a majority of votes in the Association, or such higher percentage as may be required by the Documents, constitutes approval by written consent. This Section may not be used to avoid the requirement of an annual meeting.

4.16. DEVICE MEETINGS. Members of the Association may participate in and hold meetings of the Association by means of conference telephone, electronic town halls, or similar communications equipment by means of which all persons participating in the meeting can communicate with each other.

ARTICLE 5

RULES

5.1. RULES. The Board has the right to establish and amend, from time to time, reasonable Rules for: (1) the administration of the Association and the Documents; (2) the maintenance, management, operation, use, conservation, and beautification of the Property; and (3) the health, comfort, and general welfare of the Residents. The Rules may not be in conflict with applicable law or the Documents. The Board will, at all times,

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maintain the then current and complete Rules in a written form which can be copied and distributed to the Members.

5.2. ADOPTION AND AMENDMENT. Any Rule may be adopted, amended, or terminated by the Board, provided that the Rule and the requisite Board approval are properly recorded as a resolution in the minutes of the meeting of the Board.

5.3. NOTICE AND COMMENT. At least 10 days before the effective date, the Board will give written notice to an Owner of each Unit of any amendment, termination, or adoption of a Rule, or will publish same in a newsletter or similar publication that is circulated to the Members. The Board may, but is not required, to give similar notice to Residents who are not Members. Any Member or Resident so notified has the right to comment orally or in writing to the Board on the proposed action.

5.4. DISTRIBUTION. On request from any Member or Resident, the Board will provide a current and complete copy of Rules. Additionally, the Board will, from time to time, distribute copies of the current and complete Rules to Owners and, if the Board so chooses, to non-Member Residents.

ARTICLE 6 **ENFORCEMENT**

6.1. REMEDIES. The violation of any provision of the Documents gives the Board the following rights, in addition to any other rights set forth in the Documents:

- a. Fines. To impose reasonable fines, if notice and an opportunity to be heard are given.
- b. Self-Help. To enter the Unit or Common Element in which, or as to which, the violation or breach exists and to summarily abate and remove, at the expense of the defaulting Owner, any structure, thing, or condition (except for additions or alterations of a permanent nature that may exist in that Unit) that is contrary to the intent and meaning of the provisions of the Documents. The Board may not be deemed liable for any manner of trespass by this action.
- c. Courts. To enjoin, abate, or remedy, by appropriate legal proceedings, the continuance of any breach.

6.2. NOTICE AND HEARING. Before imposing a fine or exercising self-help abatement, the Board must give the Owner a written violation notice and an opportunity to be heard.

6.2.1. Notice of Violation. The Board's written violation notice will contain the following: (1) the date the violation notice is prepared or mailed; (2) a description of the violation; (3) a reference to the Rule or provision of the Documents that is being violated; (4) a description of the action required to cure the violation; (5) the amount of the fine to be levied and/or the abatement action to be taken; (6) the date the fine begins accruing or abatement action becomes possible; and (7) a statement that not later than the 30th day after the date of the violation notice, the Owner may request a hearing before the Board to contest the fine or the abatement action.

6.2.2. Notice to Resident. In addition to giving the written violation notice to the Owner, the Board may also give a copy of the notice to the non-owner Resident, if the Board deems it appropriate.

6.2.3. Receipt of Notice. Unless State law provides otherwise, any notice given to an Owner pursuant to this Article will be deemed received by the Owner on personal delivery to the Owner or to a person at the Owner's address, or on the third business day after the notice is deposited with the U.S. Postal Service, addressed to the Owner at the most recent address shown on the Association's records,

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whether or not the Owner actually receives the notice. If the Association's records show that a Unit is owned by 2 or more persons, notice to one co-owner is deemed notice to all co-owners. Similarly, notice to one Resident is deemed notice to all Residents.

6.2.4. Request for Hearing. To request a hearing before the Board, an Owner must submit a written request to the Board within 30 days after the date of the violation notice. Within 10 days after receiving the Owner's request for a hearing, the Board will give the Owner notice of the date, time, and place of the hearing. The hearing will be scheduled for a date within 45 days from the date the Board receives the Owner's request, and should be scheduled to provide a reasonable opportunity for both the Board and the Owner to attend.

6.2.5. Pending Hearing. Pending the hearing, the Board may continue to exercise the Association's other rights and remedies for the violation, as if the declared violation were valid. The Owner's request for a hearing suspends only the levy of the fine and/or the abatement action described in the notice.

6.2.6. Hearing. The hearing will be held in a closed or executive session of the Board. At the hearing, the Board will consider the facts and circumstances surrounding the violation. The Owner may attend the hearing in person, or may be represented by another person or written communication. No audio or video recording of the hearing may be made.

6.2.7. Minutes of Hearing. The minutes of the hearing must contain a statement of the results of the hearing and the amount of fine, if any, imposed, or abatement action, if any, authorized. A copy of the violation notice and request for hearing should be placed in the minutes of the hearing. If the Owner appears at the hearing, the notice requirement will be deemed satisfied.

6.3. IMPOSITION OF FINE. Within 30 days after levying the fine or authorizing the abatement, the Board must give the Owner notice of the levied fine or abatement action. If the fine or action is announced at the hearing at which the Owner is actually present, the notice requirement will be satisfied. Otherwise, the notice must be in writing.

6.3.1. Amount. The Board may set fine amounts on a case by case basis, provided the fine is reasonable in light of the nature, frequency, and effects of the violation. The Board may establish a schedule of fines for certain types of violations. The amount and cumulative total of a fine must be reasonable in comparison to the violation. If the Board allows fines to accumulate, it may establish a maximum amount for a particular fine, at which point the total fine will be capped.

6.3.2. Type of Fine. If the violation is ongoing or continuous, the fine may be levied on a periodic basis (such as daily, weekly, or monthly). If the violation is not ongoing, but is instead sporadic or periodic, the fine may be levied on a per occurrence basis.

6.3.3. Other Fine-Related. The Association is not entitled to collect a fine from an Owner to whom it has not given notice and an opportunity to be heard. The Association may not charge interest on unpaid fines. The Association may not foreclose its Assessment lien on a debt consisting solely of fines. The Board may adopt a collection policy that applies Owners' payments to unpaid fines before retiring other types of Assessments.

6.4. ADDITIONAL ENFORCEMENT RIGHTS. Notwithstanding the notice and hearing requirement, the Board may take immediate and appropriate action, without giving the notices required in this Article, against violations of the Documents which, in the Board's opinion, are (1) self-evident, such as vehicles parked illegally or in violation of posted signs; (2) threatening to life or property; or (3) repeat violations of the same provision by the same Owner to whom prior notices and demands have been given for the same violation. Further, the

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provisions of this Article do not apply to specific remedies provided in the Documents for certain violations, such as nonpayment of Assessments.

ARTICLE 7

OBLIGATIONS OF THE OWNERS

7.1. **NOTICE OF SALE.** Any Owner intending to sell or convey his Unit or any interest therein must give written notice to the Board of his intention, together with (1) the address or legal description of the Unit being conveyed, (2) the name and address of the intended purchaser, (3) the name, address, and phone number of the title company or attorney designated to close the transaction, (4) names and phone numbers of real estate agents, if any, representing seller and purchaser, and (5) scheduled date of closing. An Owner will furnish this information to the Board at least 10 business days before the scheduled date of closing or conveyance. The requirements of this Section may be satisfied by giving the Association a copy of an accepted resale contract in connection with the Owner's request to the Association for a resale certificate.

7.2. **PROOF OF OWNERSHIP.** Except for those Owners who initially purchase a Unit from Declarant, any person, on becoming an Owner of a Unit, must furnish to the Board evidence of ownership in the Unit, which copy will remain in the files of the Association. Also, on request by the Association from time to time, any person who purports to be an Owner or the agent of an Owner must furnish to the Board evidence of ownership of the Unit. A copy of the recorded deed is the customary evidence. This requirement may be satisfied by receipt of a Board-approved form that is completed and acknowledged by a title company or attorney at time of conveyance of the Unit or any interest therein. The Association may refuse to recognize a person as a Member unless the requested documentation is provided.

7.3. **OWNERS' INFORMATION.** Within 30 days after acquiring an ownership interest in a Unit, the Owner must provide the Association with the Owner's mailing address, telephone number, and driver's license number, if any; the name and telephone number of any Resident other than the Owner; and the name, address, and telephone number of any person managing the Unit as agent of the Owner. An Owner must notify the Association within 30 days after he has notice of a change in any information required by this Section, and must provide the information on request by the Association from time to time.

7.4. **MAILING ADDRESS.** The Owner or the several co-owners of a Unit must register and maintain one mailing address to be used by the Association for mailing of notices, demands, and all other communications. If an Owner fails to maintain a current mailing address with the Association or several Co-owners fail to designate one mailing address, the address of the Owner's Unit is deemed to be his mailing address.

7.5. **REGISTRATION OF MORTGAGEES.** Within 30 days after granting a lien against his Unit, the Owner must provide the Association with the name and address of the holder of the lien and the loan number. The Owner must notify the Association within 30 days after he has notice of a change in the information required by this Section. Also, the Owner will provide the information on request by the Association from time to time.

7.6. **ASSESSMENTS.** All Owners are obligated to pay Assessments imposed by the Association to meet the common expenses as defined in the Declaration. A Member is deemed to be in good standing and entitled to vote at any meeting of the Association if he is current in the Assessments made or levied against him and his Unit.

7.7. **COMPLIANCE WITH DOCUMENTS.** Each Owner will comply with the provisions and terms of the Documents, and any amendments thereto. Further, each Owner will always endeavor to observe and promote the cooperative purposes for which the Property was established.

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ARTICLE 8

ASSOCIATION RECORDS

8.1. **RECORDS.** The Association will use its best efforts to keep the records required by the Act, including the following:

- a. Minutes or a similar record of the proceedings of meetings of the Association. A recitation in the minutes that notice of the meeting was properly given is sufficient evidence that the notice was given.
- b. Minutes or a similar record of the proceedings of meetings of the Board.
- c. Names and mailing addresses of the Members, the currency and accuracy of the information being the responsibility of the Members.
- d. Names and mailing addresses of the Mortgagees, the currency and accuracy of the information being the responsibility of the Members and their Mortgagees.
- e. Financial records and books of account for the Association, kept in a manner consistent with generally accepted accounting principles and approved by the Board.
- f. A copy of plans and specifications acquired by the Association over time for improvements to the Property.
- g. Copies of income tax returns prepared for the Internal Revenue Service.
- h. Copies of the Documents and all amendments to any of these. Also, for at least four years, a record of all votes or written consents by which amendments to the Documents were approved.

8.2. **INSPECTION OF BOOKS AND RECORDS.** Books and records of the Association will be made available for inspection and copying pursuant to applicable law, such as Section 82.114(b) of the Act and Article 1396-2.23 of the Texas Non-Profit Corporation Act.

8.2.1. **Proper Purpose.** The Board may require a Member to submit a written demand for inspection, stating the purpose for which the Member will inspect the books and records. To the extent permitted by applicable law, the Board has the following rights: (1) to determine whether the Member's purpose for inspection is proper; (2) to deny the request if the Board determines that the Member's purpose is not proper; and (3) if granting the request, to identify which books and records are relevant to the Member's stated purpose for inspection.

8.2.2. **Copies.** A Member, at Member's expense, may obtain photocopies of books and records for which the Board grants the right of inspection. The Board has the right to retain possession of the original books and records, to make copies requested by the Member, and to charge the Member a reasonable fee for copying.

8.2.3. **Member's Agent.** A Member's inspection of the books and records may be assisted or performed by the Member's agent, accountant, or attorney.

8.2.4. **Records of Attorneys and Accountants.** The files and records of an attorney or accountant who performs services for the Association are not records of the Association and are not subject to inspection by Members.

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8.3. CONDOMINIUM MANAGEMENT CERTIFICATE. As required by applicable law, such as Section 82.116 of the Act, the Association will maintain a condominium management certificate in the Real Property Records of Llano County, Texas, and will amend or replace such certificate within 30 days after the date the Association has notice of a change in any information in a recorded certificate.

8.4. RESALE CERTIFICATES. Any officer may prepare or cause to be prepared, certify, and execute resale certificates in accordance with applicable law, such as Section 82.157 of the Act. The Association may charge a reasonable fee for preparing resale certificates. The Association may refuse to furnish resale certificates until the fee is paid. Any unpaid fees may be assessed against the Unit for which the certificate is furnished.

8.5. OWNERS LIST. At least once a year, the Association must prepare a list of Owners, showing the name and complete mailing address of the designated Owner of each Unit, and the street address or legal description of the Unit. The list may include any other types of information customarily kept by the Association for communicating with its Members. The Association must make the Owners list available to any Owner on request, and may charge a reasonable fee for cost of copying and delivering the Owners list.

ARTICLE 9

NOTICES

9.1. CO-OWNERS. If a Unit is owned by more than one person, notice to one co-owner is deemed notice to all co-owners.

9.2. DELIVERY OF NOTICES. Any written notice required or permitted by these Bylaws may be given personally, by mail, by fax, or by any other method permitted by applicable law, such as the Texas Nonprofit Corporation Act. If mailed, the notice is deemed delivered when deposited in the U.S. mail addressed to the Member at the address shown on the Association's records. If transmitted by fax or email, the notice is deemed delivered on successful transmission of the facsimile or electronic correspondence. The notice must be sent to the party's last known address as it appears on the records of the Association at the time of transmission. If an Owner fails to give the Association an effective address, the notice may be sent to the address of the Owner's Unit. If the Association properly transmits the notice, the Owner is deemed to have been given notice whether or not he actually receives it.

9.3. WAIVER OF NOTICE. Whenever a notice is required to be given to an Owner, Member, or director, a written waiver of the notice, signed by the person entitled to the notice, whether before or after the time stated in the notice, is equivalent to giving the notice. Attendance by a Member or director at any meeting of the Association or Board, respectively, constitutes a waiver of notice by the Member or director of the time, place, and purpose of the meeting. If all Members or directors are present at any meeting of the Association or Board, respectively, no notice is required and any business may be transacted at the meeting.

ARTICLE 10

DECLARANT PROVISIONS

10.1. CONFLICT. The provisions of this Article control over any provision to the contrary elsewhere in these Bylaws.

10.2. BOARD OF DIRECTORS. During the Declarant Control Period, Appendix B of the Declaration governs the number, qualification, and appointment of directors. The initial directors will be appointed by Declarant and need not be Owners or Residents. Directors appointed by Declarant may not be removed by the Owners and may be removed by Declarant only. Declarant has the right to fill vacancies in any directorship vacated by a Declarant appointee.

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10.3. ORGANIZATIONAL MEETING. Within 60 days after the end of the Declarant Control Period, or sooner at Declarant's option, Declarant will call an organizational meeting of the Members for the purpose of electing directors, by ballot of Members. Notice of the organizational meeting will be given as if it were notice of an annual meeting.

10.4. DECLARANT RESERVATIONS. Nothing in these Bylaws may be construed to, nor may any Mortgagee, other Owner, or the Association, prevent or interfere with the rights contained in Appendix B of the Declaration which Declarant reserves exclusively unto itself and its successors and assigns. In case of conflict between these Bylaws and Appendix B of the Declaration, Appendix B controls.

ARTICLE 11

AMENDMENTS TO BYLAWS

11.1. AUTHORITY. These Bylaws may not be amended by the Board without approval by the Members. These Bylaws may be amended by the Members according to the terms of this Article.

11.2. PROPOSALS. The Association will provide an Owner of each Unit with a description, if not exact wording, of any proposed amendment. The description will be included in the notice of any annual or special meeting of the Association if the proposed amendment is to be considered at the meeting.

11.3. CONSENTS. Subject to the following limitation, an amendment of these Bylaws must be approved by Members representing at least a majority of the votes present (in person or by proxy) at a properly called meeting of the Association for which a quorum is obtained. In other words, if a quorum is present (in person or by proxy) at a meeting, the Owners of a majority of the Units represented at the meeting (in person or by proxy) - even if less than a majority of the total Units - may approve an amendment to these Bylaws. However, this Section may not be amended without the approval of Members representing at least a majority of the total Units in the Property.

11.4. MORTGAGEE PROTECTION. In addition to the notices and consents required by these Bylaws, certain actions and amendments require notice to or approval by Eligible Mortgagees, pursuant to the Mortgagee Protection article of the Declaration. If applicable, the Association must give the required notices to and obtain the required approvals from Eligible Mortgagees.

11.5. EFFECTIVE. To be effective, an amendment must be in the form of a written instrument (1) referencing the name of the Property, the name of the Association, and the recording data of these Bylaws and any amendments hereto; (2) signed and acknowledged by at least one officer of the Association, certifying the requisite approval of Members and, if required, Eligible Mortgagees; and (3) recorded in the Real Property Records of Llano County, Texas. The Association will deliver a copy of each amendment to an Owner of each Unit at least 10 days before the amendment's effective date. An amendment may be effective immediately if adopted at a meeting at which Owners of two-thirds of the Units are represented.

11.6. DECLARANT PROTECTION. During the Development Period, no amendment of these Bylaws may affect the Declarant's rights herein without the Declarant's written and acknowledged consent. Specifically, this Section and the article titled "Declarant Provisions" may not be amended without prior written approval of the Declarant. The Declarant's written consent must be part of the amendment instrument.

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ARTICLE 12

GENERAL PROVISIONS

12.1. **DRAFTER'S INTENT.** Because the Declarant intends these Bylaws to serve the Association for many years beyond the initial development, construction, and marketing of the Property, the Declarant purposefully did not draft these Bylaws from its own perspective. Instead, as a courtesy to future users of these Bylaws, the Declarant compiled most of the Declarant-related provisions in Appendix B of the Declaration. Although the Declarant is initially an Owner and a Member of the Association, the Declarant is intentionally exempt from a number of obligations that apply to other Owners, and has a number of rights that other Owners do not have. These Bylaws are to be construed liberally to give effect to the drafter's intent of favorable and preferential treatment of the Declarant.

12.2. **COMPENSATION.** A director, officer, Member, or Resident may not receive any pecuniary profit from the operation of the Association, and no funds or assets of the Association may be paid as a salary or as compensation to, or be distributed to, or inure to the benefit of a director, officer, Member, or Resident. Nevertheless,

- a. Reasonable compensation may be paid to a director, officer, Member, or Resident for services rendered to the Association in other capacities.
- b. A director, officer, Member, or Resident may, from time to time, be reimbursed for his actual and reasonable expenses incurred on behalf of the Association in connection with the administration of the affairs of the Association, provided the expense has been approved by the Board.
- c. The Board may budget and use Association funds to purchase awards, certificates, a celebratory meal, or other customary tokens or demonstrations of appreciation for volunteer activities.
- d. This provision does not apply to distributions to Owners permitted or required by the Declaration or the Act.

12.3. **CONFLICTING PROVISIONS.** If any provision of these Bylaws conflicts with any provision of applicable law, the conflicting Bylaws provision is null and void, but all other provisions of these Bylaws remain in full force and effect. In the case of any conflict between the Articles of Incorporation of the Association and these Bylaws, the Articles control. In the case of any conflict between the Declaration and these Bylaws, the Declaration controls.

DRAFTER'S DICTUM

Users of this document should periodically review statutes and court rulings that may modify or nullify provisions of this document or its enforcement, or may create rights or duties not anticipated by this document.

12.4. **SEVERABILITY.** Whenever possible, each provision of these Bylaws will be interpreted in a manner as to be effective and valid. Invalidity of any provision of these Bylaws, by judgment or court order, does not affect any other provision which remains in full force and effect.

12.5. **CONSTRUCTION.** The effect of a general statement is not limited by the enumerations of specific matters similar to the general. The captions of articles and sections are inserted only for convenience and may not be construed as defining or modifying the text to which they refer. The singular is construed to mean the plural, when applicable, and the use of masculine or neuter pronouns includes the feminine.

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12.6. FISCAL YEAR. The fiscal year of the Association will be set by resolution of the Board, and is subject to change from time to time as the Board determines. In the absence of a resolution by the Board, the fiscal year is the calendar year.

12.7. WAIVER. No restriction, condition, obligation, or covenant contained in these Bylaws may be deemed to have been abrogated or waived by reason of failure to enforce the same, irrespective of the number of violations or breaches thereof which may occur.

(Executed on Next Page)

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CERTIFICATION & ACKNOWLEDGMENT

As the Declarant of The Waters at Horseshoe Bay Resort Condominium and the initial and sole Member of The Waters Condominium Association, I certify that the foregoing Bylaws of The Waters Condominium Association were adopted by the Board of Directors of The Waters Condominium Association for the benefit of the Association.

SIGNED this _____ day of _____ 2005.

DECLARANT:

CENTEX HOMES, a Nevada general partnership, d/b/a
Centex Destination Properties

By: CENTEX REAL ESTATE CORPORATION, a Nevada
corporation, its managing general partner

By: _____
Joseph J. Arcisz, III, President
(Centex Destination Properties- Central Division)

[CORPORATE SEAL]

THE STATE OF TEXAS

COUNTY OF TARRANT

§
§
§

This instrument was acknowledged before me on the ____ day of _____, 2005, by Joseph J. Arcisz, III, President (Centex Destination Properties - Central Division) of Centex Real Estate Corporation, a Nevada corporation, the managing general partner of Centex Homes, a Nevada general partnership, on behalf of said partnership.

[Notary Seal]

Notary Public, State of Texas

Commission Expiration Date: _____

After recording, please return to:

Ms. MaryLou Delehant
Centex Destination Properties
515 W. Southlake Blvd., Suite 130
Southlake, Texas 76092

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January 11, 2008

Dear Residents,

On December 29, 2007, the Board of Directors for The Waters at Horseshoe Bay Resort Condominiums signed a Rule and Regulations Resolution regarding mold prevention and unit inspections.

As you are aware, molds produce tiny spores to reproduce. Mold spores waft through the indoor and outdoor air continually. When mold spores land on a damp spot indoors, they may begin growing and digesting whatever they are growing on in order to survive. There are molds that can grow on wood, paper, carpet and foods. When excessive moisture or water accumulates indoors, mold growth will often occur, particularly if the moisture problem remains undiscovered or unaddressed. There is no practical way to eliminate all molds and mold spores in the indoor environment; the way to control indoor mold growth is to control moisture. The key to mold control is moisture control.

As The Waters is a second home for the majority of our unit owners, mold growth can become a serious concern for our residents.

Based on this concern, the Board has adopted the following rule and regulation concerning mold prevention and unit inspections: (please visit your community website for an actual copy of the policy resolution):

Inspection of Units

1. Periodic inspections of unoccupied units as set forth in these rules is mandatory preventative mold maintenance for units within the Property;
2. Inspections of all unoccupied units within the Property will be conducted by the Association once each quarter in the months of January, April, July and October. For the purposes of these rules, an unoccupied property shall mean a unit that has not provided overnight accommodations to any person for a period in excess of twenty-one consecutive at any time since the last inspection made by the Association pursuant to these rules. The Board of Directors of the Association has the sole discretion in determining whether a unit is "unoccupied" for the purposes of these rules.
3. Written notice of the date and approximate time of such inspections will be provided in writing to the unit owner mailed at least ten days prior to the inspection, to the address for such owner contained in the books and records of the Association. Owners are welcome to attend the inspection, but the Association shall not be required to reschedule the inspection should an owner be unable to attend.
4. Inspections will include attempts to insure that no water leaks, water penetrations or excessive areas of moisture exist. Cabinets, closets, air conditioning filter doors and any other readily accessible space within a unit may be accessed for this purpose. Should any water leak be identified, the Association shall notify the owner of such leak and shall have the authority to turn off the source of the water immediately.

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Remedy of Conditions

5. Should the inspector observe conditions within a unit that, in the sole discretion of the Board of Directors of the Association, are conducive to mold development, including excessive humidity or high temperatures (temperatures of 80 degrees or higher are presumed to be conducive to mold development), the Association shall give notice of such condition to the owner in writing to the unit owner, mailed to the address for owner contained in the books and records of the Association. The notice will specify the steps required to cure the condition. Should the condition persist for 30 days following notice being provided to the owner, the Association shall enter the unit and cure the condition. The Association invites owners to provide the Association permission to make adjustments to thermostats upon the initial inspection without notice to the owner.

Disclaimer and Indemnity

6. The Association conducts this inspection solely for its own benefit and not for the benefit of the owner of the unit. The Association does not represent or warrant that it will locate or identify any existing mold or condition that may be conducive to the development of mold. The Association inspector will not possess professional expertise in the leak or mold detection. Therefore, each unit owner hereby waives any claims against the Association, any management company or personnel and any inspection company or inspector employed by the Association for failure to locate any condition whether mold or otherwise, that has caused damage or may lead to damage to an inspected unit. All unit owners should have a professional inspection performed on a regular basis as directed and determined by unit owner.
7. Each unit hereby indemnifies the Association, any management company or personnel employed by the Association against any claims based upon the findings or lack of findings of any inspection.

Please be advised that the first quarter unit inspection is scheduled of Tuesday, February 12, 2008 at 10:00 a.m.

If you have any questions, please do not hesitate to contact me at 713-329-7159.

Sincerely,

Emma Deatherage, PCAM
Senior Association Manager

Cc: Linda Bartel, Sr. Vice President