

**TAX MAP #1-34 17.00-14**  
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**HAB/KB**

**CODE OF REGULATIONS**  
**FOR**  
**TOWNHOMES OF WATERSIDE II, PHASE 3,**  
**“CANAL WOODS AT WATERSIDE”**

**ARTICLE I**  
**Plan of Unit Ownership**

Section 1.1. Unit Ownership.

The Property located on the north side of County Road 361, near the Town of Ocean View, in Baltimore Hundred, Sussex County, Delaware (hereinafter called the "Property"), has been submitted to the provisions of the Unit Property Act of the State of Delaware (Del. C. of 1974, as amended, Title 25, Sections 2201-2242), by the Declaration of **CIRCLE J DEVELOPERS, LLC, a Delaware limited liability company, successor to Bethany Proper Limited Partnership**, recorded in the Office of the Recorder of Deeds, in and for Sussex County, Delaware, simultaneously herewith, in Deed Book \_\_\_\_\_, at page \_\_\_\_\_, and shall hereinafter be known as **TOWNHOMES OF WATERSIDE II, PHASE 3, “CANAL WOODS AT WATERSIDE”**, (hereinafter called the "Condominium") and as shown on the Declaration Plan recorded in the Office of the Recorder of Deeds, in and for Sussex County, Delaware in Plot Book \_\_\_\_\_, page \_\_\_\_\_.

Section 1.2. Applicability of Code of Regulations.

The provisions of this Code of Regulations are applicable to the Property of the condominium and to the use and occupancy thereof. All present and future Owners, mortgagees, lessees and occupants of Units and their employees and any other person who may use the facilities of the Property in any manner, are subject to this Code of Regulations, the Declaration and the rules and regulations, as may be adopted by the Council as hereinafter provided. The acceptance of a deed or transfer document, or the act of occupancy of a Unit shall conclusively establish the acceptance and ratification of this Code of Regulations, the rules and regulations, and the provisions of the Declaration, as they may be amended from time to time, by the person so acquiring, or occupying a Unit and shall constitute and evidence an agreement by such person to comply with the same.

Section 1.3. Office.

The office of the condominium and of the Council shall be located at the condominium or at such other place as may be designated from time to time by the Council.

**ARTICLE II**  
**Association of Owners**

Section 2.1. Composition.

All of the Owners of Units contained in the condominium, acting as a group in accordance with the Unit Property Act, the Declaration and this Code of Regulations, shall constitute the "Association of Owners", which shall be incorporated as **CANAL WOODS AT WATERSIDE CONDOMINIUM ASSOCIATION, INC.**, a Delaware non-profit corporation. This corporation shall have the responsibility of administering the condominium, establishing the means and methods of collecting the contributions to the Common Expenses, arranging for the management of the condominium, and performing all of the other acts that may be required to be performed by the Association of Owners, by the Unit Property Act and the Declaration. Except as to those matters which the Unit Property Act specifically requires to be performed by the vote of the Unit Owners, the administration of the foregoing responsibilities shall be performed by the Council as more particularly set forth in Article III.

Section 2.2. Annual Meetings.

The Developer shall notify the Owners of the existing Units on or before one year from the date the first Unit is sold and settled, and the first annual meeting of the Association of Owners shall be held within thirty (30) days thereafter on a call issued by the Developer. At such meeting the persons designated by the Developer shall resign as members of the Council, and all of the Owners, and the Developer, shall elect a new Council which shall consist of five (5) members, three (3) of said members to be designated by the Developer for so long as Units in the additional phases are planned to be annexed, or until December 31, 2020, whichever shall first occur. Thereafter, the annual meetings of the Association of Owners shall be held in April of each succeeding year at the time and place determined by the Council. At such annual meetings the Council shall be elected by ballot of the Owners in accordance with the requirements in Section 4 of Article III of this Code of Regulations. The Association Owners may transact such other business at such meetings as may properly come before them.

Section 2.3. Place of Meetings. Meetings of the Association of Owners shall be held at the principal office of the condominium or at such other suitable place convenient to the Owners as may be designated by the Council.

Section 2.4. Special Meetings.

It shall be the duty of the president to call a special meeting of the Association of Owners if so directed by resolution of the Council or upon a petition signed and presented to the secretary by Unit Owners owning not less than 25 percent of the percentage interests of all Unit Owners; provided, however, that no special meeting shall be called prior to the first annual meeting of the Association of Owners except by resolution of the Council. The notice of any special meeting shall state the time and place of such meeting and the purpose thereof. No business shall be transacted at a special meeting except as stated in the notice.

Section 2.5. Notice of Meetings and Waiver.

It shall be the duty of the secretary to mail a notice with the agenda of each annual or special meeting of the Unit Owners, at least fourteen (14) but not more than twenty (20) days prior to such meeting, stating the purpose thereof as well as the time and place where it is to be held, to each Unit Owner of record, at such address as each Unit Owner shall have designated by notice in writing to the secretary. The mailing of a notice of meeting in the manner provided in this section shall be considered service of notice. Any Unit Owner may, at any time, waive notice of any meeting of the Unit Owners, in writing, and such waiver shall be deemed equivalent to the giving of such notice.

Section 2.6. Adjournment of Meetings.

If any meeting of the Association of Owners cannot be held because a quorum is not present, Unit Owners owning a majority of the percentage interests who are present at such meeting, either in person or by proxy, may adjourn the meeting to a time not less than forty-eight (48) hours from the time the original meeting was called.

Section 2.7. Order of Business.

The order of business at all annual meetings of the Association of Owners shall be as follows:

- (a) Roll Call.
- (b) Proof of notice of meeting.
- (c) Reading of minutes of preceding meeting.
- (d) Reports of officers.
- (e) Report of the Council.
- (f) Reports of committees.
- (g) Election of inspectors of election (when so required).
- (h) Election of members of the Council (when so required).
- (i) Unfinished business.
- (j) New Business.

Section 2.8. Ownership Interests in Units.

Ownership interests in and to Units may be taken in the name of an individual or in the names of two or more persons, as tenants in common or as joint tenants by the entirety, or in the name of a corporation or partnership, or in the name of a fiduciary.

Section 2.9. Voting.

Voting at all meetings of the Association of Owners shall be on a percentage basis and the percentage of the vote to which each Unit Owner is entitled shall be the percentage interest assigned to his Unit in the Declaration. Where the Ownership of a Unit is in more than one person, then the person who shall be entitled to cast the vote of that Unit shall be the person named in a certificate signed by all of the Owners of the Unit and filed with the secretary. Such certificate shall be valid until revoked by a subsequent certificate. Whenever the approval or disapproval of a Unit Owner is required by the Unit Property Act, the Declaration or this Code of Regulations, such approval or disapproval shall only be made the person who would be entitled to cast the vote for the Unit Owner at any meeting of the Association of Owners. Except where a greater number is required by the Unit Property Act, the Declaration, or this Code of Regulations, a majority of the Unit Owners is required to adopt decisions at any meeting of the Association of Owners. If the Developer owns or holds title to one or more Units, the Developer shall have the right at any meeting of the Association of Owners to cast the vote to which such Unit is entitled. The Developer shall be entitled to cast the votes for each Unit that is proposed in the additional phases as shown in the Declaration, even if not built, until such Units are built, annexed and conveyed, or until December 31, 2020.

Section 2.10. Proxies.

A vote may be cast in person or by proxy. Proxies shall be valid only for the particular meeting designated therein and must be filed with the secretary before the appointed time of the meeting.

Section 2.11. Majority of Owners.

As used in this Code of Regulations, the term "majority of the Owners" shall mean those Unit Owners having more than fifty percent (50%) of the aggregate percentage interests of all Unit Owners.

Section 2.12. Quorum.

Except as otherwise provided in this Code of Regulations, the presence in person or by proxy of a majority of the Unit Owners shall constitute a quorum at all meetings of the Association of Owners.

Section 2.13. Conduct of Meetings.

The president shall preside over all meetings of the Association of Owners and the secretary shall keep the minutes of the meeting and record in a minute book all resolutions adopted by the meeting as well as a record of all transactions occurring thereat. Roberts Rules of Order shall govern the conduct of all meetings of the Association of Owners when not in conflict with the Declaration, this Code of Regulations or the Unit Property Act. All meetings shall be open to all other Unit Owners.

Section 2.14. Availability of Records.

The Association shall maintain current copies of the Declaration, Code of Regulations, Certificate of Incorporation, By-laws, other documents concerning the Property, other books, records and financial statements and shall hold all such documents available for inspection by Unit Owners or by holders, insurers and guarantors of first mortgages that are secured by Units. Documents shall be available for inspection during normal business hours and upon request of the Association.

**ARTICLE III**  
**Council**

Section 3.1. Number and Qualification.

The affairs of the condominium shall be governed by a Board of Directors known as the Council. Until the first annual meeting called by the Developer is held, the Council shall consist of three (3) persons named in the Declaration, or such other persons, as shall have been designated by the Developer. Thereafter, the Council shall be composed of five (5) persons, all of whom shall be designees of the Developer, Owners or spouses of Owners, or mortgagees (or designees of mortgagees) of Units or Delaware residents. Two (2) of the five (5) members shall be elected at the first annual meeting, and three (3) shall be appointed by the Developer. All five (5) members shall be elected no later than: (a) the date the Developer declares that **TOWNHOMES OF WATERSIDE II, PHASE 3, "Canal Woods at Waterside"**, shall no longer be subject to expansion; (b) four (4) months after seventy-five percent (75%) of the Units have been conveyed to Unit purchasers; or (c) five (5) years after the first Unit is conveyed, provided, however, the effective date the Developer designates withdrawal shall be at a special or regular meeting where successor Council members shall be elected. The Developer shall have the right in its sole discretion to replace such Council members as may be so selected and designated by it, and to select and designate their successors. The Developer, CIRCLE J DEVELOPERS, LLC, or persons designated by it, shall remain and have three (3) seats on the Council, until: (a) the date the Developer declares that **TOWNHOMES OF WATERSIDE II, PHASE 3, "Canal Woods at Waterside"** shall no longer be subject to expansion; (b) four (4) months after eighty percent (80%) of the Units have been conveyed

to Unit purchasers; or (c) seven (7) years after the first Unit is conveyed, whichever shall first occur.

### Section 3.2. Powers and Duties.

The Council shall have all of the powers and duties necessary for the administration of the affairs of the condominium and may do all such acts and things as are by the Unit Property Act or by this Code of Regulations directed to be exercised and done by the Association of Owners. The Council shall have the power from time to time to adopt any rules and regulations deemed necessary for the enjoyment of the condominium provided such rules and regulations shall not be in conflict with the Unit Property Act or the Declaration. The Council shall delegate to one of its members the authority to act on behalf of the Council on all matters relating to the duties of the managing agent, if any, which might arise between meetings of the Council. In addition to the duties imposed by this Code of Regulations or by any resolution of the Association of Owners that may hereafter be adopted, the Council shall have the power to, and be responsible for, the following:

(a) Preparation of an annual budget, in which there shall be established the contribution of each Owner to the Common Expenses.

(b) Making assessments against Owners to defray the costs and Expenses of the condominium, establishing the means and methods of collecting such assessments from the Unit Owners, and establishing the period of the installment payment of the annual assessment for Common Expenses. Unless otherwise determined by the Council, the annual assessment against each Unit Owner for this proportionate share of the Common Expenses shall be payable in equal monthly, quarterly or annual installments, as determined by the Council, each such installment to be due and payable in advance on the date(s) established by the Council.

(c) Providing for the operation, care, upkeep, replacement, maintenance and surveillance of all of the Common Elements and services of the condominium except as may otherwise be provided herein.

(d) Designating, hiring and dismissing the personnel necessary for the maintenance, operation, repair and replacement of the Common Elements, and providing services for the Property, and, where appropriate, providing for the compensation of such personnel and for the purchase of equipment, supplies and material to be used by such personnel in the performance of their duties, which supplies and equipment shall be deemed the common Property of the Unit Owners.

(e) Collecting the assessments against the Owners, depositing the proceeds thereof in a bank depository which it shall approve, and using the proceeds to carry out the administration of the Property.

(f) Making and amending rules and regulations respecting the use of the Property so that such do not unduly restrict the use and enjoyment by the Unit Owners, their tenants and guests.

(g) Opening of bank accounts on behalf of the condominium and designating the signatories required therefor.

(h) Making, or contracting for the making of, repairs, additions, and improvements to, or alterations of, the Property and repairs to, and restoration of, the Property, in accordance with the other provisions of this Code of Regulations, after damage or destruction by fire or other casualty.

(i) Enforcing by legal means the provisions of the Declaration, this Code of Regulations and the rules and regulations for the use of the Property adopted by it and bringing any proceedings which may be instituted on behalf of the Unit Owners.

(j) Obtaining and carrying insurance against casualties and liabilities, as provided in Article VI of this Code of Regulations, and paying the premium cost thereof.

(k) Paying the cost of all services rendered to the condominium, and not billed to Unit Owners.

(l) Keeping books with detailed accounts in chronological order of the receipts and expenditures affecting the condominium, and the administration of the condominium, specifying the maintenance and repair Expenses of the Common Elements, and any other Expenses incurred. The said books shall be available for examination by the Owners, their duly authorized agents or attorneys, during general business hours on working days at the times and in the manner that shall be set and announced by the Council for the general knowledge of the Owners. All books and records shall be kept in accordance with good and accepted accounting practices, and the same shall be audited at least once a year by an outside auditor employed by the Council who shall not be a resident of the condominium, or an Owner of a Unit therein. The cost of such audit shall be a common expense. A financial statement shall be available within one hundred twenty (120) days of the end of the fiscal year.

(m) Notifying the mortgagee of any Unit of any default by the Unit Owner whenever requested in writing by such mortgagee to send such notice.

(n) Maintaining written minutes of all meetings.

(o) To resolve disputes between and among Unit Owners, Council and Developer and make decisions regarding disputes related to the interpretation and application of the Declaration, Code of Regulations and rules and regulations promulgated pursuant thereto.

(p) To do such other things and acts not inconsistent with the Unit Property Act and with the Declaration which it may be authorized to do by a resolution of the Association of Owners.

### Section 3.3. Managing Agent.

The Council shall employ for the Condominium a professional managing agent at a compensation established by the Council, to perform such duties and services as the Council shall authorize, including, but not limited to, the duties listed in section 2 of this Article III. The Council may delegate to the managing agent all of the powers granted to the Council by this Code of Regulations; except with respect to the powers set forth in paragraphs (b) and (f) of said Section 2; and provided, further, that any action by the managing agent with respect to the powers set forth in paragraphs (d), (g), and (i) of said Section 2 shall require the prior written consent thereto of the Council.

### Section 3.4. Election and Term of Office.

At the first annual meeting of the Association of Owners, the term of office of the two (2) members of the Council shall be fixed at one (1) year, the term of office of three (3) members of the Council appointed by the Developer shall be fixed at one (1) year. At the expiration of the initial term of office of each respective member of the Council, his successor shall be elected or designated to serve for terms of up to three (3) years as determined by the Association. The members of the Council shall hold office until their respective successors shall have been elected or appointed by the Developer.

### Section 3.5. Removal of Members of the Council.

At any regular or special meeting of the Association of Owners duly called, any one or more of the members of the Council may be removed with or without cause by a majority of the Council, and a successor may then and there be elected to fill the vacancy thus created. Any member of the Council whose removal has been proposed by the Unit Owners shall be given at least ten (10) days' notice of the calling of the meeting and the purpose thereof and he shall be given an opportunity to be heard at the meeting. Notwithstanding anything in this section to the contrary, so long as the Developer has the right to select and designate three (3) members of the Council, no person selected and designated by the Developer as a member of the Council may be removed without the consent of the Developer and in such event the Developer shall select and designate his successor.

### Section 3.6. Vacancies.

Vacancies in the Council caused by any reason other than the removal of a member by a vote of the Association of Owners shall be filled by a vote of a majority of the



remaining members of the Council at a special meeting of the Council held for that purpose promptly after the occurrence of any such vacancy, even though the members present at such meeting may constitute less than a quorum, and each person so elected shall be a member of the Council for the remainder of the term of the member so removed and until a successor shall be elected at the next annual meeting of the Association of Owners; provided, however, that the vacancy of any member designated by the Developer pursuant to a right of the Developer to make such designation shall be filled by the Developer.

Section 3.7. Organization Meeting.

The first meeting of the members of the Council following the annual meeting of the Association of Owners shall be held within ten (10) days thereafter at such time and place as shall be fixed by the Council so elected, and no notice shall be necessary to the newly elected members of the Council in order legally to constitute such meeting, providing a majority of the whole Council shall be present thereat.

Section 3.8. Regular Meetings.

Regular meetings of the Council shall be held at least semi-annually at such time and place as shall be determined from time to time by a majority of the members. Notice, including the agenda, of regular meetings of the Council shall be given to each member, by mail or by telegraph, telefacsimile or telephone with mail confirmation, at least fourteen (14) business days prior to the day named for such meeting.

Section 3.9. Special Meetings.

Special meetings of the Council may be called by the president on fourteen (14) business days' notice to each member, given by mail or by telegraph, telefacsimile or telephone with mail confirmation, which notice shall state the time, place and purpose of the meeting. Special meetings of the Council shall be called by the president or secretary in like manner and on like notice on the written request of at least two (2) members.

Section 3.10. Waiver of Notice.

Notwithstanding any provision to the contrary contained herein, any member may, at any time, in writing, waive notice of any meeting of the Council, and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a member at any meeting of the Council shall constitute a waiver of notice by him of the time and place of such meeting. If all members are present at any meeting of the Council, no notice shall be required and any business may be transacted at such meeting, including meetings conducted by telephone conference.

Section 3.11. Quorum of Council.

At all meetings of the Council, four-fifths of the members shall constitute a quorum for the transaction of business, and the votes of a majority of the members present at a meeting at which a quorum is present shall constitute the decision of the Council.

Section 3.12. Fidelity Bonds.

If the Council does not use a professional management company or one which is not bonded, the Council shall obtain adequate fidelity bonds for all officers and employees of the condominium handling or responsible for condominium funds. The premiums on such bonds shall constitute a common expense.

Section 3.13. Compensation.

No Council member shall receive any compensation from the condominium for acting as such, but may be reimbursed for necessary Expenses incurred in regard to service as a Council member, as approved by the Council from time to time.

Section 3.14. Conduct of Meetings.

The president shall preside over all meetings of the council and the secretary shall keep a minute book of the Council recording therein all resolutions adopted by the Council and a record of all transactions and proceedings occurring at such meetings. Roberts Rules of Order shall govern the conduct of the meetings of the Council when not in conflict with the Declaration, this Code of Regulations or the Unit Property Act. All meetings shall be open to all other Unit Owners.

Section 3.15. Liability of the Members of the Council.

The members of the Council shall not be liable to the Unit Owners for any mistake of judgment, negligence, or otherwise except for their own individual willful misconduct or bad faith. The Unit Owners shall indemnify and hold harmless each of the Council members from and against all contractual liability to others arising out of contracts made or action taken by the Council on behalf of the Unit Owners unless any such contract or action shall have been made in bad faith or contrary to the provisions of the Declaration or of this Code of Regulations. It is intended that the members of the Council shall have no personal liability with respect to any contract made or action taken by them on behalf of the Unit Owners. Every agreement made or action taken by the Council or by the managing agent on behalf of the Unit Owners shall, if obtainable, provide that the members of the Council, or the managing agent, as the case may be, are acting only as agents for the Unit Owners and shall have no personal liability thereunder, and that each Unit Owner's liability thereunder shall be limited to such proportion of the total liability thereunder as his percentage interest bears to the percentage interests of all Unit Owners. The Unit Owners shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that he is

or was a member of the Council, against Expenses (including attorneys' fees), judgments, fines and amounts paid in settlement incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believes to be in or not opposed to the best interests of the Owners.

#### **ARTICLE IV** **Officers**

##### Section 4.1. Designation.

The principal officers of the condominium shall be the president, the vice president, the secretary and the treasurer, all of whom shall be elected by the Council. The Council may appoint an assistant treasurer, an assistant secretary, and such other officers as in its judgment may be necessary. The president and vice president shall be members of the Council. Any other officers may be, but shall not be required to be, members of the Council.

##### Section 4.2. Election of Officers.

The officers of the condominium shall be elected annually by the Council at the organization meeting of each new Council and shall hold office at the pleasure of the Council. Any vacancy in an office shall be filled by the Council at a regular meeting or special meeting called for such purposes.

##### Section 4.3. Removal of Officers.

Upon the affirmative vote of a majority of the members of the Council, any officer may be removed, either with or without cause, and his successor may be elected at any regular meeting of the Council, or at any special meeting of the Council called for such purpose.

##### Section 4.4. President.

The president shall be the chief executive of the condominium. He shall preside at all meetings of the Association of Owners and of the Council. He shall have all of the general powers and duties which are incident to the office of the president of a stock corporation organized under the General Corporation Law of the State of Delaware, including, but not limited to, the power to appoint committees from among the Owners from time to time as he may in his discretion decide is appropriate to assist in the conduct of the affairs of the condominium.

##### Section 4.5. Vice President.

The vice president shall take the place of the president and perform his duties whenever the president shall be absent or unable to act. If neither the president nor the vice president is able to act, the Council shall appoint some other member of the Council to act in the place of the president, on an interim basis. The vice president shall also perform such other duties as shall from time to time be imposed upon him by the Council or by the president.

Section 4.6. Secretary.

The secretary shall keep the minutes of all meetings of the Association of Owners and of the Council, he shall have charge of such books and papers as the Council may direct; and he shall, in general, perform all the duties incident to the office of secretary of a stock corporation organized under the General Corporation Law of the State of Delaware.

Section 4.7. Treasurer.

The treasurer shall have the responsibility for condominium funds and securities and shall be responsible for keeping full and accurate financial records and books of account showing all receipts and disbursements, and for the preparation of all required financial data; he shall be responsible for the deposit of all monies and other valuable effects in the name of the Council, or the managing agent, in such depositories as may from time to time be designated by the Council, and he shall, in general, perform all the duties incident to the office of treasurer of a stock corporation organized under the General Corporation Law of the State of Delaware.

Section 4.8. Agreements, Contracts, Deeds, Checks, etc.

All agreements, contracts, deeds, leases, checks and other instruments of the condominium for expenditures or obligations of over \$1,000.00 shall be executed by any two officers or by such other person or persons as may be designated by the Council. All such instruments for expenditures or obligations of less than \$1,000.00 may be executed by any one officer or by such other person as may be designated by the Council.

Section 4.9. Compensation of Officers.

No officer shall receive any compensation from the condominium for acting as such, but may be reimbursed for expenses incurred in regard to services rendered to the condominium, as approved by the Council from time to time.

**ARTICLE V**  
**Operation of the Property**

Section 5.1. Determination of Common Expenses and Assessments Against Owners.

(a) Fiscal Year. The fiscal year of the condominium shall be the calendar year.

(b) Preparation and Approval of Budget. Each year on or before December 1, the Council shall adopt a budget for the condominium containing an estimate of the total amount which it considers necessary to pay the cost of maintenance, management, operation, repair and replacement of the Common Elements, and those parts of the Units as to which it is the responsibility of the Council to maintain, repair and replace, the cost of wages, materials, insurance premiums, services, supplies and other Expenses that may be declared to be Common Expenses by the Unit Property Act, the Declaration, this Code of Regulations or a resolution of the Association of Owners, and which will be required during the ensuing fiscal year for the administration, operation, maintenance and repair of the condominium and the rendering to the Unit Owners of all related services. Such budget shall also include such reasonable amounts as the Council considers necessary to provide working capital for the condominium, a general operating reserve, and reserves for contingencies and replacements. The Council shall send to each Unit Owner a copy of the budget, in a reasonably itemized form which sets forth the amount of the Common Expenses payable by each Owner, on or before the commencement of the next ensuing fiscal year to which the budget applies. The said budget shall constitute the basis for determining each Unit Owner's contribution for the Common Expenses and the condominium assessments.

(c) Assessment and Payment of Common Expenses. The total amount of the estimated funds required for the operation of the condominium set forth in the budget for the fiscal year adopted by the Council shall be assessed against each Unit Owner in proportion to his respective percentage interest in the condominium, and shall be a lien against each Owner's Unit as of the first day of the fiscal year to which such budget applies. Payment of the annual assessment shall be due on the schedule of payments set by the Council. The Council shall supply to all Unit Owners an itemized accounting of the Common Expenses for the last ensuing fiscal year actually incurred and paid, together with a tabulation of the amounts collected pursuant to the budget adopted by the Council for such fiscal year, and showing the net amount over or short of the actual expenditures plus reserves in conjunction with preparing a new budget for the next ensuing fiscal year. Any amount accumulated in excess of the amount required for actual Expenses and reserves shall, if the Council deems it advisable, be credited according to each Unit Owner's percentage interest to the next periodic installment due from each Unit Owner under the current fiscal year's budget, until exhausted, and any net shortage shall, if the Council deems it advisable, be added according to each Unit Owner's percentage interest to the installments due in the next ensuing fiscal year.

(d) Reserves. The Council shall build up and maintain reasonable reserves for working capital, operations, contingencies and replacements. Extraordinary expenditures not originally included in the original budget which may become necessary during the year shall be charged first against such reserves. If the reserves are inadequate for any reason, including non-payment of any Unit Owner's assessment, the Council may at any time levy a

further assessment, which shall be assessed against the Unit Owners according to their respective percentage interests, and which may be payable in a lump sum or in installments as the Council may determine. The Council shall serve notice of any further assessment on all Unit Owners by a statement in writing giving the amount and reasons therefor, and such further assessment shall, unless otherwise specified in the notice, become effective with the next monthly payment which is due more than ten (10) days after the delivery or mailing of such notice of further assessment. All Unit Owners shall be obligated to pay the adjusted assessment on the dates specified by the Council.

(e) Initial Assessment. When the first Council appointed by the Developer under this Code of Regulations takes office, it may determine the budget, as defined in this Section, for the period commencing upon the sale of the first Unit by the Developer and ending on the calendar year in which such first sale occurs. Until changed by the Council, an initial assessment due from each Unit Owner on the sale of a Unit from the Developer shall be two times the current monthly assessment per Unit to capitalize the Council's operation and reserve account. Said Assessment shall be prorated for the calendar year in which first sale occurs. This account, if held by Owner, shall be transferred to the Association for deposit in a segregated fund when control of the Association is transferred to the Unit Owners. Owner shall not use paid account for any purposes unrelated to Association purposes.

(f) Effect of Failure to Prepare or Adopt Budget. The failure or delay of the Council to prepare or adopt the annual budget for any fiscal year shall not constitute a waiver or release in any manner of a Unit Owner's obligation to pay his allocable share of the common expense as herein provided, whenever the same shall be determined, and in the absence of any annual budget or adjusted budget, each Unit Owner shall continue to pay the assessment charge at the then existing monthly, quarterly or annual rate last established for the previous fiscal period until such new annual or adjusted budget shall have been mailed or delivered.

(g) Accounts. All sums collected by the Council with respect to assessments against the Unit Owners may be commingled into a single fund, but shall be held for each Unit Owner in accordance with his percentage interest.

## Section 5.2. Payment of Common Expenses.

All Unit Owners shall be obligated to pay the Common Expenses assessed by the Council pursuant to the provisions of Section 1 of this Article V. No Unit Owner may exempt himself from liability for this contribution toward Common Expenses by waiver of the use of enjoyment of any of the Common Elements or by the abandonment of his Unit. No Unit Owner shall be liable for the payment of any part of the Common Expenses assessed against his Unit subsequent to a sale, transfer or other conveyance by him of such

Unit. The purchaser of a Unit shall be jointly and severally liable with the selling Owner for all unpaid assessments against the latter for this proportionate share of the Common Expenses up to the time of the conveyance, without prejudice to the purchaser's right to recover from the selling Owner the amounts paid by the purchaser therefor; provided, however, that any such purchaser shall be entitled to a statement from the Council or managing agent setting forth the amount of the unpaid assessments against the selling Owner and such purchaser shall not be liable for, nor shall the Unit conveyed be subject to a lien for, any unpaid assessments in excess of the amount therein set forth; and provided, further, that if a mortgagee of a first mortgage of record or other purchaser of a Unit obtains title to the Unit as a result of foreclosure of a first mortgage, such purchaser, its successors and assigns shall not be liable for, and such Unit shall not be subject to, a lien for the payment of Common Expenses assessed prior to the acquisition of title to such Unit by such purchaser pursuant to the foreclosure sale. Such unpaid share of Common Expenses assessed prior to the acquisition of title to such Unit by such purchaser pursuant to the foreclosure sale shall be collectible from all Unit Owners, including the purchaser of the foreclosure sale, in proportion to their respective percentage interests.

#### Section 5.3. Collection of Assessments.

The Council shall take prompt action to collect any assessments for Common Expenses due from any Unit Owner which remain unpaid for more than thirty (30) days from the due date for payment thereof.

#### Section 5.4. Effect of Nonpayment of Assessment.

If any assessment is not paid on the date when due as hereinabove established, then the established fiscal year assessment (notwithstanding the fact that the Council has allowed for quarterly or monthly installments) shall be deemed due and delinquent and it shall, together with such interest thereon and costs of collection thereof, as hereinafter provided, establish the right in the Council to foreclose the lien on the condominium Unit which shall bind such Unit in the hands of the then Unit Owner. In addition to such lien right, the personal obligation of the then Owner to pay such assessment shall remain his personal obligation and shall not pass to his successors or assigns other than as a lien upon the Unit unless expressly assumed by them. If the assessment is not paid within thirty (30) days of its due date, the entire fiscal year assessment shall bear interest at the Delaware rate on judgments from its due date, and the Council may bring an action against the Unit Owner or enforce the lien on the Unit, and in the event judgment is obtained, such judgment shall include interest at the maximum amount authorized by 25 Del. C. Section 2233, reasonable attorneys' fees to obtain and enforce such judgment, and costs as fixed by the court.

#### Section 5.5. Statement of Common Expenses.

The Council shall promptly provide any Unit Owner so requesting the same in writing, with a written statement of all unpaid assessments for Common Expenses due from such Owner.

Section 5.6. Maintenance and Repair.

(a) By the Council. The Council shall be responsible for the maintenance, repair and replacement (unless necessitated by the negligence, misuse or neglect of a Unit Owner, in which case such expense shall be charged to such Owner) of the following, the cost of which shall be charged to all Owners as a common expense:

(1) All of the Common Elements including Limited Common Elements except as specified in Subsection (b) below.

(2) All incidental damage caused to any Unit by such work as may be done or caused to be done by the Council in accordance therewith.

(b) By the Unit Owner.

(1) Except for the portions of his Unit required to be maintained, repaired and replaced by the Council, each Unit Owner shall be responsible, except if repair or replacement is caused by a catastrophic loss covered by the Condominium Master Policy, for the maintenance, repair and replacement, at his own expense, of his Unit as the same is defined in Section 7 of the Declaration and the Limited Common Elements appurtenant thereto as defined in Section 8 of the Declaration.

(2) Each Unit Owner shall keep the interior and exterior of his Unit and its equipment and appurtenances in good order, condition and repair and in a clean and sanitary condition, and shall do all interior redecorating, painting and repair which may at any time be necessary to maintain the good appearance and condition of his Unit.

(3) In addition, each Unit Owner shall be responsible for all damages to any and all other Units or to the Common Elements resulting from his failure to make any of the repairs required to be made by him by this section, and to repair all damages to other Units or to the Common Elements caused by that Unit Owner and/or his tenants, guests, family members, employees, agents, business invitees or licensees, to the extent not covered by insurance on the Common Elements, or if such damage is so caused and the loss is covered by insurance on the Common Elements, the Unit Owner shall be responsible for any increase in insurance premiums directly attributable to said insured loss.

(4) Each Unit Owner shall perform his responsibility in such manner as shall not unreasonably disturb or interfere with the other Owners.



(5) Each Unit Owner shall promptly report to the Council or the managing agent any defect or need for repairs for which the Council is responsible.

(c) Manner of Repair and Replacement. All repairs and replacements shall be substantially similar to the original construction and installation and be of a quality equivalent to the original construction. The method of approving payment vouchers for all Common Elements and improvements, repairs and replacements shall be determined by the Council.

Section 5.7. Additions, Alterations or Improvements by the Council.

Whenever in the judgment of the Council the Common Elements shall require additions, alterations or improvements costing in excess of Two Thousand Dollars (\$2,000.00) during any period of twelve (12) consecutive months, and the making of such additions, alterations or improvements shall have been approved by a majority of the Unit Owners, the Council shall proceed with such additions, alterations or improvements and shall assess all Unit Owners for the cost thereof as a common expense. Any additions, alterations or improvements costing Two Thousand Dollars (\$2,000.00) or less during any period of twelve (12) consecutive months may be made by the Council without approval of the Unit Owners and the cost thereof shall constitute part of the Common Expenses. Notwithstanding the foregoing, if, in the opinion of not less than three-fifths (3/5) of the members of the Council, such additions, alterations or improvements are exclusively or substantially for the benefit of the Unit Owner or Owners requesting the same, such requesting Unit Owners shall be assessed therefor in such proportion as they jointly approve or, if they are unable to agree thereon, in such proportions as may be determined by the Council.

Section 5.8. Additions, Alterations or Improvements by Owners.

No Unit Owner shall make any structural addition, alteration or improvement in or to his Unit without the prior written consent thereto of the Council and payment of an additional fee for the added value to the master insurance policy. Any application to any governmental authority for a permit to make an addition, alteration or improvement in or to any Unit shall be executed by the Council only, without however incurring any liability on the part of the Council or any of them to any contractor, subcontractor or materialman on account of such addition, alteration or improvement, or to any person having any claim for injury to person or damage to Property arising therefrom. The provisions of this Section 8 shall not apply to Units owned by the Developer until such Units shall have been initially sold by the Developer.

Section 5.9. Restriction on Use of Units.

Each Unit and the Common Elements shall be occupied and used in accordance with the provisions of the Declaration, the terms and provisions of the Declaration, Paragraph 9 being incorporated herein by reference.

Section 5.10. Right of Access.

A Unit Owner shall grant a right of access to his Unit to the Council or the managing agent, or any other person authorized by the Council or the managing agent, or any group of the foregoing, for the purpose of making inspections or for the purpose of correcting any condition originating in his Unit and threatening another Unit or the Common Elements, or for the purpose of performing installations, alterations or repairs to the mechanical or electrical services or the Common Elements in his Unit or elsewhere in the Property, or to correct any condition which violates the provisions of any mortgage covering another Unit, provided that requests for entry are made in advance and that any such entry is at a time reasonably convenient to the Unit Owner. In case of an emergency, such right of entry shall be immediate, whether the Unit Owner is present at the time or not.

Section 5.11. Rules and Regulations.

Rules and regulations concerning the operation and use of the Common Elements may be promulgated and amended by the Council, provided that such rules and regulations are not contrary to or inconsistent with the Unit Property Act, the Declaration or this Code of Regulations. Copies of the rules and regulations shall be furnished by the Council to each Owner prior to the time when the same shall become effective. Unit Owners may amend or defeat a rule or regulation if twenty percent (20%) of the Unit Owners petition the Council at least thirty (30) days prior to the next scheduled membership meeting. Rules and regulations are deemed approved unless modified or defeated by a vote of sixty percent (60%) of the Unit Owners.

Section 5.12. Electricity.

Electricity shall be supplied by the public utility company serving the area directly to each Unit through separate meters and each Unit Owner shall be required to pay the bills for electricity consumed or used in his Unit. The electricity serving the Common Elements shall be separately metered, and the Council shall pay all bills for electricity consumed in such portions of the Common Elements as a common expense.

Section 5.13. Sewer.

Sewer and the charge for use of sewer shall be supplied by the public utility, private utility or government entity serving the area directly to each Unit through separate meters and/or separate charges which shall be made for each Unit's use. The sewer use charges to

each Unit shall be governed by agreements or regulations under which private or public utility companies supply sanitary sewage disposal for the Units. Sewage supplied to Common Elements shall be charged as part of the Common Expenses.

Section 5.14. Water.

Water and the charge for use of water shall be supplied by the public utility, private utility or government entity serving the area directly to each Unit through separate meters and/or separate charges which shall be made for each Unit's use. The water use charges to each Unit shall be governed by agreements or regulations under which private or public utility companies supply water service for the Units. Water supplied to Common Elements shall be charged as part of the Common Expenses.

Section 5.15. Parking Spaces.

Parking space shall be located in front of the Unit or on the limited Common Elements designated on the Declaration Plan as such and shall be for the exclusive use of the Owner of the Unit.

Section 5.16. Leasing.

Any lease or rental agreement must be in writing.

**ARTICLE VI**  
**Insurance**

Section 6.1. Authority to Purchase.

Except as otherwise provided in Section 6.3 of this Article VI, all insurance policies relating to the Property (which, for this Section, shall include all of the structure including garage, floor coverings, bathroom and kitchen fixtures, lighting fixtures, washer, dryer, dishwasher, range, range hood, garbage disposal, refrigerator, intercom system, exhaust fans, central vacuum system, hot water heater, garage door opener, all heating and air conditioning equipment and other service machinery contained therein; and any and all other permanent fixtures and improvements originally installed by Developer) shall be purchased by the Council as trustee for the Owners of the Units and their respective mortgagees, as their interests may appear, which insurance shall be governed by the following provisions:

(a) The Council shall be required to make every effort to obtain a single master policy covering physical damage for the Common Elements under which the insurance company will issue to each Unit Owner a certificate or sub-policy specifying the portion of the master policy allocated to each Owner's Unit and his percentage interest in the Common Elements. The master policy shall also provide, if possible, that:

(1) Physical damage insurance in an amount equal to the full replacement value (i.e., 100% of "replacement cost" less any deductible deemed reasonable by the Council) of the project with an "agreed amount" endorsement and a "replacement cost" endorsement, without deduction or allowance for depreciation (said amount to be redetermined annually by the Council with the assistance of the insurance company affording such coverage), such coverage to afford protection against at least all risks loss:

(2) Each Unit Owner shall have the right to request an increase in the coverage allocated to his Unit by reason of improvements made solely to his Unit, but any additional premium resulting from such additional coverage and personal insurance, contents, liability, improvements and betterments shall be paid by such Owner

(b) In addition, the Council shall be required to make every effort to secure a master policy covering physical damage that will provide the following:

(1) That the insurer waives its rights to subrogation to any claims against the Council, the managing agent, the Unit Owners and their respective agents, employees, guests and, in the case of the Unit Owners, the members of their households;

(2) That the master policy on the Property cannot be canceled, invalidated, or suspended on account of the conduct of any member, officer or employee of the Council or the managing agent, without a prior demand in writing that the Council or the managing agent cure the defect;

(3) That any "no other insurance" clause contained in the master policy shall expressly exclude individual Unit Owners' policies from its operation;

(4) That until the expiration of thirty (30) days after the insurer gives notice in writing to the mortgagee of any Unit, the mortgagee's insurance coverage will not be affected or jeopardized by any act or conduct of the Owner of such Unit, the other Owners, the council, or any of their agents, employees or household members, except for 10 days notice for non-payment of premiums;

(5) That the master policy may not be canceled or substantially modified without at least thirty (30) days' prior written notice to the Council and all mortgagees of Units;

(6) That the net proceeds of such policies, if less than Twenty-five Thousand Dollars (\$25,000.00), shall be payable to the Council, and if more than Twenty-five Thousand Dollars (\$25,000.00) shall be payable to the insurance trustee designated in Section 4 of this Article;

(7) That the master policy shall contain a standard mortgagee clause in favor of each mortgagee of a Unit to the extent of the portion of the coverage of the master policy allocated to such Unit, which shall provide that the loss, if any, thereunder shall be payable to such mortgagee and the Owner as their interests may appear, subject, however, to the loss payment and adjustment provisions in favor of the Council and the insurance trustee contained in Sections 4 and 5 of this Article VI.

(c) All policies of insurance shall be written with a company licensed to do business in the State of Delaware.

(d) In no event shall the insurance coverage obtained and maintained by the Council hereunder be brought into contribution with insurance purchased by individual Unit Owners or their mortgagees, unless otherwise required by Delaware or other applicable law.

(e) Any Unit Owner who obtains individual insurance policies covering any portion of the Property, other than personal Property belonging to such Owner, shall be required to file a copy of such individual policy or policies with the Council within thirty (30) days after the purchase of such insurance.

(f) It shall be required of each Owner at each Owner's expense to provide public liability, Property damage, title and other insurance with respect to such Owners's own Unit and Limited Common Elements appurtenant thereto. Each Owner, including the Developer, is required to carry public liability and Property damage insurance on their respective properties and Units and Limited Common Elements appurtenant thereto and to furnish copies of certificates thereof to the Association.

(g) The Council shall be required to obtain and maintain the following insurance: (1) fire insurance with extended coverage, vandalism, malicious mischief, windstorm and flood (flood insurance shall only be the responsibility of the Council if required by a majority of the lenders holding first mortgage liens against Units in the condominium), insuring the Common Elements, together with all equipment and other service machinery contained therein and covering the interests of the Council and all Unit Owners and their mortgagees, as their interests may appear, in an amount equal to the maximum insurable replacement value of the Property, without deduction for depreciation; (2) workmen's compensation insurance if and to the extent necessary to meet the requirements of law; and (3) such other insurance as the Council may determine or as may be requested from time to time by a majority of the Owners. At the option of the Owners, if otherwise required, flood insurance may be obtained separately for each Unit, provided each Unit Owner shall then be obligated to procure such individual insurance for his Unit.

(h) The Council shall also be required to obtain and maintain, to the extent obtainable, public liability and Property damage insurance in such limits as the Council may from time to time determine, insuring each member of the Council, the managing agent, and each Unit Owner against any liability to the public or to the Unit Owners (and their invitees, agents and employees) arising out of or incident to, the Ownership and/or use

of the Common Elements and improvements. Said insurance shall be issued on a comprehensive liability basis and shall contain a cross liability endorsement under which the rights of a named insured under the policy shall not be prejudiced with respect to his action against another named insured. The Council shall review such limits once each year, to determine in their discretion the adequacy of such insurance. It shall be the responsibility of each Unit Owner to obtain, at his own expense, liability insurance with respect to his Ownership and/or use of his Unit, and the Council shall not be responsible for obtaining such insurance.

(i) The Council may obtain officers and directors errors and omissions coverage which shall be a part of the condominium insurance expense.

(j) A duplicate original of the master policy of physical damage insurance, all renewals thereof, and all sub-policies or certificates issued thereunder, together with proof of payment of premiums, shall be delivered to all mortgagees of Units at least ten (10) days prior to expiration of the then current policies. Prior to obtaining any policy of physical damage insurance or any renewal thereof, the Council shall obtain an appraisal from an insurance company, or such other source as the Council may determine, of the full replacement value of the Property, without deduction for depreciation, for the purpose of determining the amount of physical damage insurance to be effected pursuant to this section.

#### Section 6.3. Separate Insurance.

Each Unit Owner shall, at his own expense, obtain insurance for his own Unit and for his own benefit and to obtain insurance coverage upon his personal Property and for his personal insurance, contents, liability, improvements and betterments installed after the original Development provided that no Unit Owner shall be entitled to exercise his right and responsibility to acquire or maintain such additional insurance coverage so as to decrease the amount which the Council, on behalf of all Unit Owners, may realize under any insurance policy which it may have in force on the Property at any particular time or to cause any insurance coverage maintained by the Council to be brought into contribution which such additional insurance coverage obtained by the Owner, and provided further that all such additional policies shall contain waivers of subrogation by the insurer as to any and all claims against the condominium, the Council, the Unit Owners and/or their respective agents or tenants.

#### Section 6.4. Insurance Trustee.

(a) The Council shall have the right to designate any bank, trust company, savings and loan Association, building loan Association, insurance company, any institutional lender or any bonded person or entity as the insurance trustee, and all parties beneficially

interested in such coverage shall be bound thereby. The insurance trustee at the time of the deposit of such policies and endorsements shall acknowledge that the policies and any proceeds thereof will be held in accordance with the terms of this Code of Regulations.

(b) The insurance trustee shall not be liable for payment of premiums, the renewal of the policies, the sufficiency of coverage, the form or contents of the policies, the correctness of any amounts received by it on account of the proceeds of any insurance policies, nor for the failure to collect any insurance proceeds. The sole duty of the insurance trustee shall be to receive such proceeds as are paid to it and to hold the same in trust for the purposes elsewhere stated in this Code of Regulations, for the benefit of the Unit Owners and their respective mortgagees.

Section 6.5. Council as Agent.

The Council is hereby irrevocably appointed the agent for each Owner of a Unit and for each mortgagee of a Unit and for each Owner of any other interest in the Property to adjust all claims arising under insurance policies purchased by the Council and to execute and deliver releases upon the payment of claims.

Section 6.6. Premiums.

Premiums upon all insurance policies purchased by the Council shall be deemed to be a common expense.

**ARTICLE VII**  
**Repair and Reconstruction after Fire**  
**or Other Casualty**

Section 7.1. When Repair and Reconstruction are Required.

In the event of damage to or destruction of all or any of the Common Elements as a result of fire, or other casualty (unless there is substantially total destruction of one or more of the Common Elements and if seventy-five percent (75%) of all Owners duly resolve, at a meeting called within ninety (90) days after the occurrence of the casualty, not to proceed with repair or restoration), the Council shall arrange for and supervise the prompt repair and restoration of the Common Elements (including any fixtures initially installed therein by the Developer, and replacements thereof installed by the Owners, but not including any Unit's fixtures or other furniture, furnishings, fixtures or equipment installed by the Owners in the Units).

Section 7.2. Procedure for Reconstruction and Repair.

(a) Cost Estimates. Immediately after a fire or other casualty causing damage to any common element, the Council shall obtain reliable and detailed estimates of the cost of repairing and restoring the Common Elements (including any fixtures initially installed by

the Developer, but not including any Unit's fixtures or other furniture, furnishings, fixtures or equipment installed by the Owner in the Unit) to a condition as good as that existing before such casualty. Such costs may also include professional fees and premiums for such bonds as the Council determines to be necessary.

(b) Assessments. If the proceeds of insurance are not sufficient to defray the said estimated costs of reconstruction and repair as determined by the Council, or if any time during reconstruction and repair, or upon completion of reconstruction and repair, the funds for the payment of the costs thereof are insufficient, assessments shall be made against the Owners directly affected by the damage or destruction, in proportion to their respective percentage interests, in sufficient amounts to provide payment of such costs.

(c) Plans and Specifications. Any such reconstruction or repair shall be substantially in accordance with the plans and specifications under which the Property was originally constructed.

(d) Encroachments. Encroachments upon or in favor of Units which may be created as a result of such reconstruction or repair shall not constitute a claim or basis for any proceeding or action by the Unit Owner upon whose Property such encroachment exists, provided that such reconstruction is substantially in accordance with the Declaration Plan under which the Property was originally constructed. Such encroachments shall be allowed to continue in existence for so long as the reconstructed Common Elements shall stand.

### Section 7.3. Disbursements of Construction Funds.

(a) Construction Fund. The net proceeds of insurance collected on account of a casualty and the funds collected by the Council from assessments against Unit Owners on account of such casualty shall constitute a construction fund which shall be disbursed in payment of the cost of reconstruction and repair in the manner set forth in this section. If the net proceeds of insurance collected on account of a casualty exceed Fifty Thousand Dollars (\$50,000.00), then the funds collected by the Council from assessments against the Owners shall be deposited by the Council with the insurance trustee, and the entire construction fund shall be disbursed by the insurance trustee; otherwise the construction fund shall be held and disbursed by the Council.

(b) Method of Disbursement. The construction fund shall be paid by the Council or the insurance trustee, as the case may be, in appropriate progress payments, to such contractors, suppliers and personnel engaged in performing the work or supplying materials or services for the repair and reconstruction of the Common Elements as are designated by the Council.

(c) Surplus. It shall be presumed that the first monies disbursed in payment of the cost of reconstruction and repair shall be from insurance proceeds; and if there is a balance



in the construction fund after the payment of all of the costs of the reconstruction and repair for which the fund is established, such balance shall be distributed jointly to the Unit Owners and their mortgagees who are the beneficial Owners of the fund; provided, however, that the part of a distribution to a beneficial Owner which is not in excess of assessments paid by the Unit Owner into the construction fund shall not be made payable to any mortgagee.

(d) Certificate. The insurance trustee shall be entitled to rely upon a certificate executed by the president or vice president, and the secretary of the condominium certifying: (i) whether the damaged Property is required to be reconstructed and repaired; (ii) the name of the payee and the amount to be paid with respect to disbursements from any construction fund held by it or whether surplus funds to be distributed are less than the assessments paid by the Owners; and (iii) all other matters concerning the holding and disbursing of any construction fund held by it. Any such certificate shall be delivered to the insurance trustee promptly after request.

#### Section 7.4. When Reconstruction Is Not Required.

If there is substantially total destruction of one or more of the Common Elements and if seventy five percent (75%) of all Owners duly resolve, at a meeting called within ninety (90) days after the occurrence of the casualty, not to proceed with repair or reconstruction, then, and in that event, the salvage value of the substantially destroyed Common Elements shall be subject to a suit for partition at the suit of any Owner, in which event the net proceeds of the sale, together with the proceeds of insurance policies held by the Council, shall be considered as one fund and shall be divided among the Owners in proportion with their percentage interests after discharging out of the respective share of each Unit Owner directly affected thereby, to the extent sufficient for such purposes and in order of their priority, all liens against the respective Units of such Unit Owners.

#### Section 7.5. Damage to or Destruction of Units.

In the event of damage or destruction by fire or other casualty to any Unit as defined in Section 7 of the Declaration or to any Limited Common Element appurtenant to a Unit as defined in Section 8 of the Declaration, such Unit Owner shall, at his own expense, promptly clear away the ruins and debris of any damaged improvements or vegetation and leave such Unit and Limited Common Elements in a clean, orderly, safe and sightly condition. Said Unit Owner shall repair or rebuild such Unit or Limited Common Elements or other improvements to substantially the same condition as prior to such fire or other casualty in accordance with all applicable standards, restrictions, and provisions of the Declaration, Declaration Plan and all applicable zoning, subdivision, building and other governmental regulations. All such work of repair or construction shall be commenced promptly following such damage or destruction and shall be carried through, without interruption, diligently to conclusion.

**ARTICLE VIII**  
**Condemnation**

Section 8.1.

Whenever all or any part of the Common Elements of **TOWNHOMES OF WATERSIDE II, PHASE 3, “Canal Woods at Waterside”** shall be taken by condemnation of eminent domain, or is conveyed in lieu thereof by the Council acting on the agreement of at least seventy-five percent (75%) of the total vote of the Association and of the Developer (for so long as Developer owns any Unit primarily for the purpose of sale or has the unexpired option to add the additional Property or any portion thereof to the development), then the award or the proceeds collected for such taking or sale in lieu thereof shall be payable to the Association and shall be disbursed or held as follows:

(a) If the taking or sale in lieu thereof involves a portion of the Common Elements on which improvements have been constructed, then, unless within sixty (60) days after such taking the Developer (for so long as Developer owns any Unit primarily for the purpose of sale or has the unexpired option to add the Additional Property or any portion thereof to the Development), together with at least seventy-five percent (75%) of the total membership of the Association shall otherwise agree, the Association shall restore or replace such improvements so taken to the extent practicable on the remaining lands included in the Common Areas which are available therefore, in accordance with the plans approved by the Council and by the Developer. If the awards or proceeds are not sufficient to defray the cost of such repair and replacement and such deficiency cannot be appropriated from a reserve fund established for such purpose, the Council may levy a special assessment against all Owners, without the necessity of a vote of the members, such special assessment to be in an amount sufficient to provide funds to pay such excess cost of repair or reconstruction. Such special assessment shall be levied against the Owners equally in the same manner as annual assessments may be made at any time during or following the completion of any repair or reconstruction. If such improvements are not to be repaired or restored, the award or proceeds shall be retained by and for the benefit of the Association.

(b) If the taking or sale in lieu thereof does not involve any improvements to the Common Elements or if there are funds remaining after such restoration or replacement of such improvements as completed, then the award, proceeds or net funds shall be retained by and for the benefit of the Association.

(c) If the taking or sale in lieu thereof includes all or any part of a Unit and includes any part of the Common Elements, then a court of competent jurisdiction shall apportion such award or proceeds and such award or proceeds shall be disbursed to the Association and the Owners so affected so as to give just compensation to the Owners of any Unit; provided, however, such apportionment may instead be resolved by the agreement of: (1)

the Council; (2) the Owners of all Units wholly or partially taken or sold, together with the Mortgagees for such Units; (3) the Developer for so long as the Developer owns a Unit primarily for the purpose of sale or has the unexpired option to add the additional Property or any portion thereof to the development.

Section 8.2. Council As Agent.

The Council is hereby irrevocably appointed the agent for each Owner of a Unit and for each mortgage of a Unit and for each Owner of any other interest in the Property to adjust, negotiate, settle, make agreements and to execute and deliver releases or other agreements in any proceedings relating to condemnation.

**ARTICLE IX**  
**Sales, Leases, and Alienation of Units**

Section 9.1. No Severance of Ownership.

No Owner shall execute any deed, lease, mortgage or other instrument conveying or mortgaging the title to his Unit without including therein the undivided interest of such Unit in the Common Elements, it being the intention hereof to prevent any severance of such combined Ownership and interest. Any such lease, mortgage, or other instrument purporting to affect one or more of such interests, without including all such interests, shall be deemed and taken to include the interest or interests so omitted, even though the latter shall not be expressly mentioned or described therein. No part of the interests in the Common Elements of any Unit may be sold, leased, transferred, given, devised, or otherwise disposed of, except as part of a sale, lease, transfer, gift, devise, or other disposition of the Unit to which such interests are appurtenant, or as part of a sale, lease, transfer, gift, devise or other disposition of such part of the interests in the Common Elements of all Units.

Section 9.2. Payment of Assessments.

No Owner shall be permitted to convey, mortgage, hypothecate, sell, lease, give or devise his Unit unless and until he (or his personal representative) shall have paid in full to the Council all unpaid Common Expenses theretofore assessed by the Council against his Unit and payable prior to the date of conveyance, except permitted mortgagees.

**ARTICLE X**  
**Mortgages**

Section 10.1. Notice to the Council.

An Owner who mortgages his Unit shall notify the Council of the name and address of his mortgagee and shall file a conformed copy of the Note and Mortgage with the Council.

Section 10.2. Notice of Unpaid Assessments for Common Expenses.

The Council, whenever so requested in writing by a mortgagee of a Unit, shall promptly report any then unpaid assessments for Common Expenses due from, or any other default by, the Owner of the mortgaged Unit.

Section 10.3. Notice of Default.

The Council, when giving notice to an Owner of a default in paying an assessment for Common Expenses, or any other default, shall send a copy of such notice to each holder of a mortgage covering such Owner's Unit whose name and address has theretofore been furnished to the Council.

Section 10.4. Other Notices.

The Council shall give timely notice to each holder of a mortgage on any Unit of any condemnation or casualty loss that affects either a material portion of the Common Elements, Units or the Unit securing the mortgage, any delinquency greater than sixty (60) days in the payment of assessments by the Owner of a Unit, a lapse, cancellation or material modification of any insurance policy maintained by the Association and any proposed action that requires the consent of a specified percentage of eligible mortgage holders provided that the mortgagee sends a written request for such information to the Association stating its name, address and Unit number on which it holds, insures or guarantees the mortgage.

**ARTICLE XI**  
**Compliance and Default**

Section 11.1. Relief.

Each Owner of a Unit shall be governed by, and shall comply with, all of the terms of the Declaration, this Code of Regulations, and the rules and regulations, and any amendments of the same. A default by a Unit Owner shall entitle the Association of Owners, acting through its Council or through the managing agent, to the following relief:

(a) Legal Proceedings. Failure to comply with any of the terms of the Declaration, this Code of Regulations 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, any other relief provided for in this Code of Regulations, 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 of Owners, the Council, the managing agent, or, if appropriate, by any aggrieved Owner.

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

(c) Costs and Attorneys' Fees. In any proceeding arising out of a default by an Owner, the Council shall be entitled to recover the costs of the proceeding, and such reasonable attorneys' fees as may be determined by the Court.

(d) No Waiver of Rights. The failure of the Association of Owners, the Council, or of a Unit Owner to enforce any right, provision, covenant, or condition which may be granted by the Declaration, this Code of Regulations or the rules and regulations shall not constitute a waiver of the right of the Association of Owners, the Council or the Unit Owners to enforce such right, provision, covenant, or condition in the future. All rights, remedies and privileges granted to the Association of Owners, the Council, or any Owner pursuant to any term, provision, covenant, or condition of the Declaration, this Code of Regulations or the rules and regulations shall be deemed to be cumulative, and the exercise of any one or more thereof shall not be deemed to constitute an election of remedies, nor shall it preclude the party exercising the same from exercising such privileges as may be granted to such party by the Declaration, this Code of Regulations or the rules and regulations, or at law or in equity.

(e) Interest. In the event of a default by any Unit Owner in paying any Common Expenses or other sum assessed against him which continues for a period in excess of thirty (30) days after its due date, such Unit Owner shall be obligated to pay interest on the amounts due at the maximum rate authorized by 25 Del. C. Section 2233 from the due date thereof.

(f) Abatement and Enjoinment of Violations by Owners. The violation of any rule or regulation adopted by the Council, or the breach of any regulation contained herein, or the breach of any provision of the Declaration, shall give the Council the right, in addition to

any other rights pursuant to law or set forth in this Code of Regulations: (a) after appropriate legal proceedings have been instituted, to enter the Unit in which, or as to which, such violation or breach exists and summarily to abate and remove, at the expense of the defaulting Unit Owner, any structure, thing or condition that may exist therein contrary to the intent and meaning of the provisions hereof, and the Council shall not thereby be deemed guilty in any manner of trespass; or (b) to enjoin, abate or remedy by appropriate legal proceedings, either at law or in equity, the continuance of any such breach.

Section 11.2. Lien for Contributions.

(a) The total annual contribution of each Unit Owner for the Common Expenses pursuant to Article V, Section 1 of this Code of Regulations is hereby declared to be a lien levied against the Unit of such Owner, which lien shall be effective as of the first day of each fiscal year of the condominium. The Council, or the managing agent, may file or record such other or further notice of lien, or such other or further document as may be required by the then laws of the State of Delaware to confirm the establishment of such lien.

(b) In any case where an assessment against a Unit Owner is payable in installments, upon a default by such Unit Owner in the payment of any single installment, which continues for thirty (30) days after its due date, the maturity of the remaining total of the unpaid installments of such assessments may be accelerated, and the then balance owing may be declared due and payable in full by the service of notice to such effect upon the defaulting Unit Owner by the Council or the managing agent.

(c) The lien for contribution may be foreclosed in the manner provided by the laws of the State of Delaware by suit brought in the name of the Council, or the managing agent, acting on behalf of the Association of Owners.

(d) Suit to recover a money judgment for unpaid contributions shall be maintainable without foreclosing or waiving the lien securing the same, and foreclosure shall be maintainable notwithstanding the pendency of any suit to recover a money judgment.

(e) The lien for contributions shall be subordinate to liens of any first mortgagee.

**ARTICLE XII**  
**Specific Rights of Owners**

Section 12.1.

Every Unit Owner shall have the right to keep, maintain, use, operate, repair and replace: (a) his Unit, in its original position, and in every subsequent position to which it changes by reason of the gradual forces of nature and of the elements, whether such

subsequent position be, in whole or part, adjacent, subjacent or superjacent to said original position; (b) every compressor and air handling Unit, stack or vent, and every duct, electrical line, pipe and other facilities leading thereto, if originally installed by the Developer of said Unit; (c) every threshold, door, window, storm window, skylight, awning and all hardware pertaining thereto; (d) and all other parts of the Unit of every kind and nature.

**ARTICLE XIII**  
**Amendments to Code of Regulations**

Section 13.1. Amendments.

Except as otherwise provided in this section, this Code of Regulations may be modified or amended either (i) by a vote of at least fifty-one percent (51%) of the Unit Owners at any regular or special meeting, provided that notice of the proposed amendment shall have been given to each Unit Owner at least fourteen (14) days in advance of such meeting or (ii) pursuant to a written instrument duly executed by a majority of the Unit Owners; provided, however, that (a) Section 2 of Article II, insofar as it provides that the Developer, so long as he has the right to erect and annex one (1) or more Units, shall be entitled to select a specified number of the members of the Council, (b) Section 9 of Article II, insofar as it provides that the Developer, so long as he has the right to erect and annex one (1) or more Units may vote the votes appurtenant thereto, (c) Section 1 of Article III, (d) Section 5 of Article III and (e) this Section 1 of Article XIII may not be amended without the consent in writing of the Developer, so long as the Developer shall have the right to erect and annex one (1) or more Units.

Section 13.2. Recording.

A modification or amendment of this Code of Regulations shall become effective only if such modification or amendment is recorded in the land records of Sussex County, Delaware.

Section 13.3. Conflicts.

No modification or amendment of this Code of Regulations may be adopted which shall be inconsistent with the provisions of the Unit Property Act. A modification or amendment once adopted and recorded as provided for herein shall then constitute part of the official Code of Regulations of the condominium, and all Owners shall be bound to abide by such modification or amendment.

Section 13.4. Approval of Mortgagees.

This Code of Regulations contains provisions concerning various rights, priorities, remedies and interests of the mortgagees of Units. Such provisions herein are to be

construed as covenants for the protection of the mortgagees on which they may rely in making loans secured by mortgages on the Units. Accordingly, no amendment or modification of this Code of Regulations impairing or affecting such rights, priorities, remedies or interests of a mortgagee shall be adopted without the prior written consent of such mortgagee. If there is more than one mortgagee holding mortgages on the Units, it shall be sufficient to obtain the written consent of the mortgagee or mortgagees holding mortgages on at least fifty-one percent (51%) of the Units encumbered by mortgages. No amendment or modification of this Code of Regulations affecting material rights of Unit Owners including the following: increases in assessments that raise previously assessed amount by more than twenty-five percent (25%), assessment liens, priority of assessment liens, reduction in reserves for maintenance, repair and replacements of Common Elements, responsibility for maintenance and repairs, insurance or fidelity bonds, leasing of Units, impositions of any restriction on a Unit Owner's right to sell or transfer his or her Unit, or manner or method of restoration or repair after a hazard damage or partial condemnation or any provisions that expressly benefits mortgage holders, insurers or guarantors shall be effective unless approved by at least sixty-seven percent (67%) of the Unit Owners under the other terms and conditions set out in Section 1.

#### **ARTICLE XIV** **Limitations**

##### Section 14.1. Exclusive Right.

The Council shall have the exclusive right to initiate any form of Legal Proceedings as it deems necessary and appropriate related to the use, operation or maintenance of the Common Area, or on behalf of the Association and the welfare of the Unit Owners, subject to the following requirements.

##### Section 14.2. "Legal Proceedings".

As used in this Section, Legal Proceedings shall mean the institution of any form of action or suit, EXCEPT the filing and enforcement of liens, the initiation of legal action for routine common expense assessment collection matters, legal actions required to enforce provisions of the Declaration, the Code of Regulations, rules and regulations with respect to the Common Elements or enforcement of service contracts between the Association and non-Developer contractors.

##### Section 14.3. American Arbitration Association Procedures.

All claims, counterclaims, disputes and other matters in question between the Association or the Unit Owners with the Developer arising out of or relating to the obligations of the Developer under this Declaration or any other statute, regulation, ordinance or the defense of any claims or actions relating the Common area or the breach thereof shall be decided by arbitration in accordance with the Arbitration Rules of the



American Arbitration Association then obtaining, subject to the limitations and restrictions stated in Section 14.5 below. This Agreement so to arbitrate and any other agreement or consent to arbitrate entered into in accordance herewith as provided in this paragraph will be specifically enforceable under the laws of the State of Delaware.

Section 14.4. Notice of Demand.

Notice of demand for arbitration must be filed in writing with the other parties to the Declaration and with the American Arbitration Association. The demand must be made within a reasonable time after the claim, dispute or other matter in question has arisen. In no event may the demand for arbitration be made after the date when institution of legal or equitable proceedings based on such claim, dispute or other matter in question would be barred by the applicable statute of limitations.

Section 14.5. Limit on Jurisdiction.

All demands for arbitration and all answering statements thereto which include any monetary claim must contain a statement identifying the total sum or value in controversy as alleged by the party making such demand or answering statement and the arbitrators will not have jurisdiction, power or authority to render a monetary award in response thereto against any party which totals more than such stated amount (exclusive of interest and costs).

Section 14.6. Waiver.

The limitations and restrictions contained in Section 14.5 may be waived in whole or in part upon written consent of the Association and Developer as to any claim, counterclaim, dispute or other matter specifically described in such consent. No consent to arbitration in respect of a specifically described claim, counterclaim, dispute or consent to arbitrate any other claim, counterclaim, dispute or other matter in question will constitute consent to arbitrate any other claim, counterclaim, dispute or other matter in question which is not specifically described in such consent or which is with any party not specifically described therein.

Section 14.7. Finality of Award.

The award rendered by the arbitrators shall be final; judgment may be entered upon it in any court having jurisdiction thereof, and will not be subject to modification or appeal except to the extent permitted by Section 10 and 11 of the Federal Arbitration Act (9 U.S.C. Sections 10 and 11).

Section 14.8. Determination to Proceed.

Due to the potential adverse financial impact of pursuing Legal Proceedings, the decision to initiate any Legal Proceedings must be made by a resolution duly adopted at a properly noticed regular or special meeting of the Association held for such purpose. Such resolution shall require the affirmative vote of the Unit Owners representing not less than sixty-seven (67%) of the Unit Owners and their mortgagees. If the Association shall incur or potentially be obligated as a result of such resolution to incur attorney's fees, expert fees or other costs associated with such Legal Proceedings totaling in excess of \$25,000 or if the amount recoverable by an attorney for the Association pursuant to a contingency fee agreement shall exceed \$50,000, then such resolution shall require the affirmative vote of the Lot owners representing not less than seventy-five (75%) of the Unit Owners and their mortgagees. Neither the Council, the Association nor the Unit Owners shall borrow on behalf of the Association nor use any funds from reserves of the Association to pay such legal costs, but the same shall be paid from and limited to the amounts provided in the annual budget for such expenditures for the fiscal year or shall be raised by special assessment levied against the Unit Owners for such purpose. If such Legal Proceedings are not concluded within 1 year of the date of such resolution, the continued prosecution of such Legal Proceedings beyond such period must be reaffirmed annually at a special meeting held for such purpose by the percentage vote of the Association as was required to adopt the original resolution. If the continued prosecution of such Legal Proceedings is not reaffirmed, the action shall be discontinued and the Council shall have no further authority to act as the attorney-in-fact for the Association in the further prosecution or defense of such Legal Proceedings but may, with the affirmative vote of a majority of the vote in the Association, act as its attorney-in-fact with respect to any settlement or compromise of such Legal Proceedings; provided the same is completed with six (6) months thereafter. If the Association, by resolution approved in accordance with this section, authorizes the Council to initiate legal Proceedings, then the decisions relating to the conduct of the Legal Proceedings shall be made by the Council for such purposes. Any action regarding the conduct of the Legal Proceedings shall be approved by a percentage vote of seventy-five (75%) or more of the Council. Decisions regarding the conduct of any Legal Proceedings are non-delegable. Notwithstanding anything contained herein or in the Declaration to the contrary, the provisions of this Section shall not be modified or amended without Developer's written consent so long as Developer owns any property within the Development; thereafter this Section shall not be modified or amended except by a written instrument, executed by the Unit Owners representing not less than eighty-five (85%) of the Unit Owners and their mortgagees, and be recorded among the land records of Sussex County.

**ARTICLE XV**  
**MISCELLANEOUS**

Section 15.1. Notices.

All notices, demands, bills, statements or other communications under this Code of Regulations shall be in writing and shall be deemed to have been duly given if delivered personally or if sent by first class mail, postage prepaid, (i) if to an Owner, at the address which the Owner shall designate in writing and file with the secretary, or if no such address is designated, at the address of the Unit Owner, as provided in his deed of record in the Office of the Recorder of Deeds, in and for Sussex County, or (ii) if to the Association of Owners, the Council or the managing agent, at the principal office of the condominium or at such other address as shall be designated by notice in writing to the Owners pursuant to this section.

Section 15.2. Invalidity.

The invalidity of any part of this Code of Regulations shall not impair or affect in any manner the validity, enforceability or effect of the balance of this Code of Regulations.

Section 15.3. Captions.

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

Section 15.4. Gender.

The use of the masculine gender in this Code of Regulations shall be deemed to include the feminine gender and the use of the singular shall be deemed to include the plural, whenever the context so requires.

Section 15.5. Definitions.

Words and phrases which are used herein and which are defined in the Declaration shall have the meaning as set forth in the Declaration; and the Definitions Paragraph 2 of the Declaration are incorporated herein by reference.

Section 15.6. Conflicts.

This Code of Regulations and the Declaration are promulgated under the provisions of 25 Del. C. Chapter 22; and in the event of any conflicts between said documents and the provisions of 25 Del. C. Chapter 22, the provisions of 25 Del. C. Chapter 22 shall be controlling; however, to the extent possible, these documents should be interpreted to conform with said statutory provisions.

This Code of Regulations is hereby declared as the Code of Regulations to govern **TOWNHOMES OF WATERSIDE II, PHASE 3, "Canal Woods at Waterside"**- All Stages, so saith **CIRCLE J DEVELOPERS, LLC** and \_\_\_\_\_, original members of the Council, this \_\_\_\_ day of \_\_\_\_\_, A.D. 2006.

**CIRCLE J DEVELOPERS, LLC**

By \_\_\_\_\_  
MEMBER

By \_\_\_\_\_  
MEMBER

ORIGINAL MEMBERS OF COUNCIL

\_\_\_\_\_  
Witness \_\_\_\_\_ (SEAL)

\_\_\_\_\_  
Witness \_\_\_\_\_ (SEAL)

\_\_\_\_\_  
Witness \_\_\_\_\_ (SEAL)

STATE OF DELAWARE :  
 : SS.  
COUNTY OF SUSSEX :

BE IT REMEMBERED, That on this \_\_\_\_\_ day of \_\_\_\_\_ A.D. 2006, personally came before me, the Subscriber, a Notary Public for the State and County aforesaid, ROBIN JAMES AND BARRY JOSEPH, Members of **CIRCLE J DEVELOPERS, LLC**, a limited liability company of the State of Delaware, as Developers and original Members of Council, as parties to this Indenture, known to me personally to be such, and acknowledged the foregoing Instrument to be his act and deed and the act and deed of the said limited liability company; and that the signature of the Member is in his/her own proper handwriting and by his/her authority to act; and that the act of signing, sealing, acknowledging and delivering the said Indenture was first duly authorized by resolution of the limited liability company.

GIVEN under my Hand and Seal of Office, the day and year aforesaid.

\_\_\_\_\_  
Notary Public

Date Commission Expires: