

EXHIBIT "E"

Bylaws of Bayside Community Association, Inc.

Article I: Name, Principal Office, and Definitions

1.1 Name.

The name of the corporation is the Bayside Community Association, Inc. ("Association").

1.2 Principal Office.

The Association's principal office shall be located in Galveston County, Texas. The Association may have other offices, either within or outside Texas, as the Board of Directors determines or as the Association's affairs require.

1.3 Definitions.

The words used in these Bylaws shall have their normal, commonly understood definitions. Capitalized terms shall have the same meaning as set forth in the Declaration of Covenants, Conditions, and Restrictions for Bayside, as it may be amended ("Declaration"), unless the context indicates otherwise.

Article II: Membership: Meetings, Quorum, Voting, Proxies

2.1 Membership.

The Association shall have two classes of membership, Class "A" and Class "B," as more fully set forth in the Declaration. Provisions of the Declaration pertaining to membership are incorporated by this reference. Any reference in these Bylaws to "Neighborhood Representatives" shall be deemed to refer to the Members if the matter in question requires the vote or presence of the Members personally.

2.2 Place of Meetings.

The Association shall hold meetings at Waterman's Restaurant or the Stewart Mansion or other such place designated by the Board.

2.3 Annual Meetings.

The Association shall hold its first meeting, whether a regular or special meeting, within one year after the date of the Association's incorporation. The Board shall set the date and time of subsequent regular annual meetings. Annual meetings may be conducted electronically (*i.e.*, via the Internet, intranet, or teleconference) if, and to the extent, permitted by law.

2.4 Special Meetings.

The President may call a special meeting of the Association. It also shall be the President's duty to call a special meeting if so directed by Board resolution or upon petition of Neighborhood Representatives representing at least 10% of the Association's total Class "A" votes; provided, the Neighborhood Representatives must deliver to the Association's Secretary at least one written demand for the meeting, describing the meeting's purpose.

If the President does not send notice of a special meeting pursuant to Section 2.5 within 30 days after the date written demand is delivered to the Association's Secretary, any Neighborhood Representative signing the demand may set the time and place of the special meeting and give the Association notice pursuant to Section 2.5.

2.5 Notice of Meetings.

The Association's Secretary shall cause written notice stating the place, day, and hour of any Association meeting to be given in any manner permitted by Texas law. If permitted, notice may be posted in a conspicuous, prominent place within the Community, delivered by hand delivery, or sent by facsimile, electronic mail, or other electronic communication device, or such other manner which is reasonably calculated, as determined in the Board's discretion, to provide reasonable notice to the Neighborhood Representatives and/or Members entitled to notice. Notice shall be given at least 10 but less than 50 days before the date of the meeting, by or at the direction of the President, the Secretary, or the officers or Persons calling the meeting.

In the case of a special meeting or when otherwise required by statute or these Bylaws, the purpose or purposes for which the meeting is called shall be stated in the notice. No other business shall be transacted at a special meeting except as stated in the notice.

If posted, notice shall be deemed delivered when posted. If mailed, the notice of a meeting shall be deemed delivered when deposited in the United States mail addressed to the Neighborhood Representative or Member at his or her address as it appears on the Association's records, with postage prepaid. If sent by facsimile, electronic mail, or such other electronic communication device, notice shall be deemed delivered when transmitted to the Neighborhood Representative or Member at his or her address or number as it appears on the Association's records. Failure to receive actual notice of an Association meeting shall not affect the validity of any action taken at such meeting.

2.6 Waiver of Notice.

Waiver of notice of an Association meeting shall be the equivalent of proper notice. Any Neighborhood Representative may waive, in writing, notice of any Association meeting, either before or after such meeting. A Neighborhood Representative's attendance at a meeting shall be deemed a waiver by such Neighborhood Representative of notice of the meeting unless the Neighborhood Representative specifically objects to lack of proper notice at the time the meeting is called to order.

Attendance at a special meeting also shall be deemed a waiver of notice of all business transacted at the meeting unless an objection on the basis of lack of proper notice is raised before the business is put to a vote.

Neighborhood Representatives present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough Neighborhood Representatives to leave less than a quorum, provided that at least a majority of the votes required to constitute a quorum approve any action taken.

2.8 Voting.

(a) During the Development Period. DURING THE DEVELOPMENT PERIOD, CLASS A MEMBERS SHALL HAVE NO VOTING RIGHTS. DECLARANT SHALL HAVE ONE (1) VOTE FOR EACH LOT OWNED AND SHALL ADDITIONALLY HAVE ONE (1) "AT LARGE" VOTE.

(b) After the Development Period. Upon termination of the Development Period, Declarant's one (1) "at large" vote will automatically terminate and any remaining Class B membership will automatically convert to Class A membership. Thereafter there will be only one (1) class of voting membership, and the Owner of each Lot, whether one or more, will be entitled to one (1) vote on each matter coming before the membership. If more than one Person holds an ownership interest in a Lot, all such Persons are Members, but in no event will they be entitled to more than one (1) vote with respect to each particular Lot owned. The single vote, approval, or consent of such joint Owners must be cast or given in accordance with the decision of a majority, or if such joint Owners cannot reach a majority decision, then none of the joint Owners will be permitted to vote, approve, or consent as to any such matter upon which a majority decision cannot be reached. The vote, approval or consent of any single Owner from among such joint Owners is conclusively presumed to be cast or given in accordance with the decision of the majority of the joint Owners and with their full authority.

(c) Cumulative Voting Prohibited. Cumulative voting is prohibited as to any matter placed before the membership for a vote, including election of Directors.

2.9 No Proxies.

Neighborhood Representatives may not vote by proxy but only in Person, electronic means or through a Person's designated alternates. On any matter as to which a Member is entitled personally to cast the vote for his Lot, such vote may be cast only in Person, subject to Texas law.

2.10 Majority. As used in these Bylaws, the term "majority" shall mean those votes, Owners, or other group as the context may indicate totaling more than 67% of the total eligible number.

2.11 Quorum. Except as these Bylaws or the Declaration otherwise provide, the presence of Members personally or through Neighborhood Representatives, representing 25% of the total Class "A" votes in the Association shall constitute a quorum at all Association meetings.

2.12 Conduct of Meetings.

The President or other Board designee shall preside over all Association meetings. The Secretary shall ensure that minutes of the meetings are kept and that all resolutions adopted and all other transactions occurring at such meetings are recorded in the Association's minute book. Owners may tape record or videotape Association meetings subject to reasonable rules the Board imposes.

2.13 Action Without a Meeting.

Without holding a meeting pursuant to Sections 2.3 or 2.4, Neighborhood Representatives may take any action that Texas law requires or permits the Members to take at a meeting (subject to any limitations imposed under the Declaration), if Neighborhood Representatives representing at least 80% of the Association's Class "A" votes sign a written consent specifically authorizing the proposed action. The Association need not give prior notice before soliciting such consent; provided, the Association must send written consent forms to all Neighborhood Representatives. Neighborhood Representatives shall sign, date, and deliver such consents to the Association within 60 days after the Association's receipt of the earliest dated consent. The Association's Secretary shall file such consents with the Association's minutes and the consents shall have the same force and effect as a vote of the Neighborhood Representatives at a meeting. Within 10 days after receiving authorization for any action by written consent, the Secretary shall give written notice to all Neighborhood Representatives entitled to vote who did not give their written consent, fairly summarizing the material features of the authorized action.

Article III: Board of Directors: Selection, Meetings, Powers

A. Composition and Selection.

3.1 Governing Body; Composition. The Board of Directors shall govern the Association's affairs. Each director shall have one vote. Except for "At-Large Representatives" elected by the Class "A" Members, directors need not be Members or residents of the Community. A director must be at least 18 years old. In the case of a Member who is not an individual, any officer, director, partner, or trust officer of such Member shall be eligible to serve as a director unless otherwise specified by written notice to the Association signed by such Member; provided, no more than one such representative of any Member, nor more than one occupant of a particular Lot, may serve on the Board at any one time, except in the case of directors the Class "B" Member appoints.

3.2 Number of Directors.

The Board shall consist of the number of directors provided for in Section 3.5. The initial Board shall consist of the three directors identified by the Declarant.

3.3 Directors During Class "B" Control Period.

The Class "B" Member shall have complete discretion in appointing its directors under Section 3.5. Class "B" Member-appointed directors shall serve at the pleasure of the Class "B" Member.

3.4 Nomination and Election Procedures.

(a) **Nominations and Declarations of Candidacy.** Prior to each election of directors, the Board shall prescribe the opening date and the closing date of a reasonable filing period in which every eligible person who has an interest in serving as a director may file as a candidate for any position to be filled by Class "A" votes. Except with respect to directors the Class "B" Member appoints, nominations for election to the Board shall be made in accordance with policies and procedures the Board establishes. Such policies and procedures may include, but are not limited to, permitting or requiring that nominations be made through a nominating committee. The Board also shall permit nominations from the floor at any election meeting.

The Board shall give each candidate a reasonable, equal opportunity to communicate his or her qualifications to the Members and to solicit votes.

(b) **Election Procedures.** A Neighborhood Representative may cast the votes assigned to the Lots which it represents ("Voting Group") for each position to be filled from the slate of candidates on which he or she is entitled to vote. Cumulative voting is not allowed. That number of candidates which equals the number of positions to be filled and receiving the greatest number of votes shall be elected.

3.5 Election and Term of Office.

Except as these Bylaws or the Declaration may otherwise specifically provide, election of directors shall take place at the Association's annual meeting. Notwithstanding any other provision of these Bylaws:

(a) As provided in Article VI of the Declaration, Declarant shall appoint an At-Large Representative no later than at such time as Class "A" Members other than Builders own 25% of the Lots anticipated for Bayside under the Master Plan, or whenever the Class "B" Member earlier determines. At such time, one of the Class "B" Member-appointed directors shall resign, and the At-Large Representative shall serve as a director. The remaining two directors shall be Class "B" Member appointees. Until the happening of the event described below in subsection (b), At-Large Representatives shall serve one-year terms on the Board and shall be succeeded by the most recently elected At-Large Representative.

(b) Within 30 days after Class "A" Members other than Builders own 50% of the Lots anticipated for Bayside under the Master Plan; or whenever the Class "B" Member earlier determines, the Board shall be increased to five directors. At such time, both At-Large Representatives shall serve as directors, and, notwithstanding the above, their terms on the Board shall coincide with their terms as At-Large Representatives. Upon expiration of their respective

terms, their successors as At-Large Representatives shall serve as directors for like terms. The remaining three directors shall be Class "B" Member appointees.

(c) Not later than the first annual meeting after the termination of the Class "B" Control Period, the Board shall hold an election at which the Neighborhood Representatives from each Voting Group shall elect a director. In order to establish staggered terms for such directors, at least one-half of the initial directors elected from the Voting Groups shall serve two-year terms and the remainder shall serve one-year terms, as such directors determine among themselves. In addition, the At-Large Representatives shall continue to serve as directors.

In the event the above results in an even number of directors, the Board members, by majority vote, shall elect one additional director. In the event of a tie in such voting, the Board President shall appoint the remaining director from among the candidates under consideration.

For so long as Declarant and its Affiliates (individually or collectively) owns at least five percent of the Lots permitted under the Master Plan for all phases of the development of the Community, the Class "B" Member may appoint one director. Thereafter, the director elected by the Class "B" Member shall resign.

Upon expiration of the initial terms of each director elected from within a Voting Group, the Neighborhood Representatives entitled to elect such directors shall elect successors to serve two-year terms. Notwithstanding the stated length of any term, directors shall hold office until their respective successors have been elected.

Notwithstanding the above, the Board, as deemed necessary or convenient in the exercise of its reasonable discretion, may adjust the commencement of director terms (as staggered) to begin at the same time each year.

The directors which are not appointed by the Class "B" Member are referred to collectively as "Class 'A' Directors."

3.6 Removal of Directors and Vacancies.

Any Class "A" Director may be removed, with or without cause, by the vote of Class "A" Members or Neighborhood Representatives, as applicable, holding a majority of the votes entitled to be cast for the election of such director. Any director whose removal is sought shall be given notice prior to any meeting called for that purpose. Upon removal of a director, a successor shall be elected by the Class "A" Members or Neighborhood Representatives entitled to elect the director so removed to fill the vacancy for the remainder of such director's term. Class "A" Directors may not be removed by the Class "B" Member.

Any Class "A" Director who has three consecutive unexcused absences from Board meetings, or who is more than 30 days delinquent (or occupies a Unit for which assessments are so delinquent) in the payment of any assessment or other charge due the Association, may be removed by a majority vote of the Board, excluding the director at issue. If the director is removed, the Board may appoint a successor to fill the vacancy for the remainder of the term.

In the event of the death, disability, or resignation of a director, the Board may declare a vacancy and appoint a successor to fill the vacancy until the next annual meeting, at which time the Class "A" Members or Neighborhood Representatives entitled to fill such directorship may elect a successor for the remainder of the term.

Any Board-appointed director shall be selected from within the Voting Group represented by the director who vacated the position, if applicable.

This Section shall not apply to directors the Class "B" Member appoints nor to any director serving as Declarant's representative. The Class "B" Member or Declarant shall be entitled to appoint a successor to fill any vacancy on the Board resulting from the death, disability, or resignation of a director appointed by or elected as a representative of the Class "B" Member or Declarant.

B. Meetings.

3.7 Organizational Meetings.

The Board shall hold its first meeting following each annual membership meeting within 10 days thereafter at such time and place as the Board shall fix.

3.8 Regular Meetings.

The Board may hold regular meetings at such time and place as the Board shall determine, but the Board shall hold at least four such meetings during each fiscal year with at least one per quarter.

3.9 Special Meetings.

The Board shall hold special meetings when called by written notice signed by the President, Vice President, or any two directors.

3.10 Notice; Waiver of Notice.

(a) Notices of Board meetings shall specify the time and place of the meeting and, in the case of a special meeting, the nature of any special business to be considered. The Board shall give notice to each director by: (i) personal delivery; (ii) telephone (either directly to the director or to a person at the director's office or home who would reasonably be expected to communicate such notice promptly to the director); or (iii) facsimile, electronic mail, or other electronic communication device, with confirmation of transmission. All such notices shall be given at the director's telephone number, fax number, or electronic mail address. Notices given by personal delivery, telephone, or other device shall be delivered or transmitted at least 72 hours before the time set for the meeting.

(b) Except for emergency meetings, notice of a Board meeting shall be electronically delivered at least 48 hours in advance of the meeting or provided in any other manner reasonably

anticipated to provide notice to all Members, including publication in an Association newsletter with community-wide circulation, posting on a Community cable television channel, or posting on a Community Internet or intranet page. In lieu of notice of each regular Board meeting, the Board may post or publish a schedule of upcoming Board meetings.

(c) Transactions of any Board meeting, however called and noticed or wherever held, shall be as valid as though taken at a meeting duly held after regular call and notice if (i) a quorum is present; and (ii) either before or after the meeting each director not present signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes. The waiver of notice or consent need not specify the meeting's purpose. Notice of a meeting also shall be deemed given to any director who attends the meeting without protesting before or at its commencement about the lack of adequate notice.

(d) Notice of any meeting at which assessments are to be established shall state that fact and the nature of the assessment.

3.11 Telephonic Participation in Meetings.

Members of the Board or any committee designated by the Board may participate in a Board or committee meeting by means of telephone or other electronic means, through which all persons participating in the meeting can hear each other. Participation in this manner shall constitute presence at the meeting for all purposes.

3.12 Quorum of Board.

At all Board meetings, a majority of the directors shall constitute a quorum for the transaction of business, and the votes of a majority of the directors present at a meeting at which a quorum is present shall constitute the Board's decision, unless these Bylaws or the Declaration specifically provide otherwise. A meeting at which a quorum is initially present may continue, notwithstanding the withdrawal of directors, if at least a majority of the required quorum for that meeting approves any action taken. If the Board cannot hold a meeting because a quorum is not present, a majority of the directors present at such meeting may adjourn the meeting to a time not less than five nor more than 30 days from the date of the original meeting. At the reconvened meeting, if a quorum is present, any business which might have been transacted at the meeting originally called may be transacted without further notice.

3.13 Conduct of Meetings.

The President shall preside over all Board meetings, and the Secretary shall keep a minute book of Board meetings, recording all Board resolutions and all transactions and proceedings occurring at such meetings. Owners may tape record or videotape Board meetings subject to reasonable rules the Board imposes.

3.14 Open Meetings: Executive Session.

Subject to the provisions of Section 3.15, all Board meetings shall be open to all Neighborhood Representatives and all Owners. However, attendees other than directors may not participate in any discussion or deliberation unless a director requests that they be granted permission to speak, and the Board concurs. In such case, the President may limit the time any such individual may speak.

Notwithstanding the above, the President may adjourn any Board meeting and reconvene in executive session, and may exclude persons other than directors, to discuss with the Association's attorney matters relating to pending or threatened litigation which are protected by the attorney-client privileges, or to discuss among the Board any other matter of a sensitive nature, if Texas law permits.

3.15 Action Without a Formal Meeting.

Any action to be taken or which may be taken at a Board meeting may be taken without a meeting if all directors sign a consent in writing, setting forth the action so taken. Such consent shall have the same force and effect as a unanimous vote.

C. Powers and Duties.

3.16 Powers.

The Board shall have all of the powers and duties necessary for administering the Association's affairs and for performing all of the Association's responsibilities and exercising all of the Association's rights as set forth in the Governing Documents, and as provided by law. The Board may do or cause to be done on the Association's behalf all acts and things except those which the Governing Documents or Texas law require to be done and exercised exclusively by the Neighborhood Representatives or the membership generally.

3.17 Duties.

The Board's duties shall include, without limitation:

- (a) adopting, in accordance with the Declaration, an annual budget establishing each Owner's share of the Common Expenses and any Neighborhood Expenses;
- (b) providing for the operation, care, upkeep, and maintenance of the Common Maintenance Area consistent with the Community-Wide Standard;
- (c) designating, hiring, and dismissing personnel necessary to carry out the Association's rights and responsibilities and where appropriate, providing for compensation of such personnel and for the purchase of necessary equipment, supplies, and materials;

(d) depositing all funds received on the Association's behalf in a bank depository which it shall approve, and using such funds to operate the Association; provided, any reserve funds may be deposited, in the Board's business judgment, in depositories other than banks;

(e) opening bank accounts on the Association's behalf and designating the signatories required;

(f) making or contracting for the making of repairs, additions, and improvements to or alterations of the Common Area in accordance with the Declaration and these Bylaws;

(g) after termination of the Class "B" Control Period, submitting for bid any planned Association expenditure (whether for capital items, services, maintenance, or otherwise) anticipated to exceed \$10,000.00 in any one fiscal year; provided, the Board is not obligated to contract with or otherwise retain the services of the lowest bidder;

(h) enforcing by legal means the provisions of the Governing Documents and bringing any proceedings which may be instituted on behalf of or against the Owners concerning the Association; provided, the Association's obligation in this regard shall be conditioned in the manner provided in the Declaration;

(i) obtaining and carrying property and liability insurance and fidelity bonds, as provided in the Declaration, paying the cost thereof, and filing and adjusting claims, appropriate;

(j) paying the cost of all services rendered to the Association;

(k) keeping books with detailed accounts of the Association's receipts; and

(l) making available to any Owner, the holders, insurers, and guarantors of any Mortgage on any Lot, and any prospective purchaser of a Lot, current copies of the Governing Documents and all other Association books, records, and financial statements as provided in Section 6.4;

(m) permitting utility suppliers to use portions of the Common Area reasonably necessary to the ongoing development or operation of Bayside;

(n) indemnifying an Association director, officer, or committee member, or former Association director, officer, or committee member to the extent such indemnity is required by Texas law, the Articles of Incorporation, or the Declaration; and

(o) maintaining, and retaining for the time periods required, the "official records" of the Association, as provided in §617.303(4) of the Texas Homeowners Association Act.

3.18 Compensation.

The Association shall not compensate a Neighborhood Representative, Board Member or director for acting as such, unless a majority of the directors otherwise approves. The Association

may reimburse any director for expenses incurred on the Association's behalf if approved by a majority of the other directors. In addition, subject to Section 3.27, nothing herein shall prohibit the Association from compensating a director for services or supplies he or she furnishes to the Association in a capacity other than as a director pursuant to a contract or agreement with the Association. The foregoing also applies to any entity with which a director is affiliated.

So long as required by the Texas Business Organizations Code, any indemnification of or advance of expenses to a Neighborhood Representative, Board Member or director must be reported in writing to all Owners upon the earlier to occur of: (i) with or before the notice or waiver of notice of the next meeting of Members; or (ii) with or before the next submission to Members of a consent to action without a meeting; or (iii) within twelve (12) months after the date of the indemnification or advance.

3.19 Right of Class "B" Member to Disapprove Actions.

During the period of Class "B" membership, the Class "B" Member shall have a right to disapprove any action, policy, or program of the Association, the Board, and any committee which, in the Class "B" Member's sole and absolute judgment, would tend to impair rights or interests of Declarant, any Declarant Affiliate, or Builders, interfere with development or construction of any portion of the Community, or diminish the level of services the Association provides.

(a) Notice. The Association, the Board, and each committee shall give the Class "B" Member written notice of their meetings and proposed actions to be approved at their meetings (or by written consent in lieu of a meeting). The notice shall comply with Section 3.10 and shall, except in the case of the regular meetings held pursuant to the Bylaws, set forth with reasonable particularity the agenda to be followed at such meeting.

(b) Opportunity to be Heard. The Association, the Board, and each committee shall give the Class "B" Member the opportunity at any meeting to join in or to have its representatives or agents join in discussion from the floor of any prospective action, policy, or program which would be subject to the right of disapproval described in this Section.

(c) Exercise of Rights. The Class "B" Member, its representatives or agents, shall make its concerns, thoughts, and suggestions known to the Board and/or the members of the subject committee. The Class "B" Member may exercise its right to disapprove at any time within 10 days following the meeting at which such action was proposed or, if the action is approved without a meeting, at any time within 10 days following receipt of written notice of the proposed action. This right to disapprove may be used to block proposed actions but shall not include a right to require any action or counteraction by the Association, the Board, or any committee. The Class "B" Member shall not use its right to disapprove to reduce the level of services which the Association is obligated to provide or to prevent capital repairs or any expenditure required to comply with applicable laws and regulations.

(d) Condition of Implementation. No action, policy, or program subject to the Class "B" Member's right of disapproval shall become effective or be implemented until and unless the requirements of subsections (a) and (b) above have been met.

3.20 Management.

The Board may employ a professional management agent or agents, at such compensation as the Board may establish, to perform such duties and services as the Board shall authorize and are otherwise within the scope of the Board's authority. The Board may delegate such powers as are necessary to perform the manager's assigned duties, but shall not delegate policy-making authority or those duties set forth in Section 3.17(a) (with respect to adoption of the budget). The Board may contract with or employ Declarant or any Declarant Affiliate as managing agent or manager.

The Board may delegate to one of its members the authority to act on the Board's behalf on all matters relating to the duties of the managing agent or manager, if any, which might arise between Board meetings.

The Association shall not be bound, either directly or indirectly, by any management contract executed during the Class "B" Control Period unless such contract contains a right of termination which the Association may exercise with or without cause and without penalty at any time after termination of the Class "B" Control Period upon not more than 90 days written notice. After the Class "B" Control Period terminates, the Association may not terminate any management contract, or retain a new managing agent, without the approval of Neighborhood Representatives representing a majority of the Association's total Class "A" votes, and Declarant, for so long as Declarant or any Declarant Affiliate owns any property described on Exhibits "A" or "B" to the Declaration.

The Class "A" Members shall have no right to terminate a management contract during the Class "B" Control Period. Unless the Board otherwise grants such right, or unless the management contract otherwise provides, the Board may act in its discretion with respect to executing and terminating management contracts during the Class "B" Control Period. Any management contract may, among other things, authorize the managing agent to act as the Association's agent with respect to the expenditure of Association funds within the scope of the approved Association budget; provided, the managing agent shall not be permitted to spend money in excess of the budget or reallocate greater than 10% of any budget line item without the Board's prior approval.

3.21 Accounts and Reports.

The following management standards of performance shall be followed unless the Board by resolution specifically determines otherwise:

- (a) accrual accounting, as defined by generally accepted accounting principles, shall be employed;
- (b) accounting and controls should conform to generally accepted accounting principles;
- (c) the Association's cash accounts shall not be commingled with any other accounts;

(d) the managing agent shall accept no remuneration from vendors, independent contractors, or others providing goods or services to the Association, whether in the form of commissions, finder's fees, service fees, prizes, gifts, or otherwise; the Association shall benefit from anything of value received;

(e) the managing agent shall disclose promptly to the Board any financial or other interest which it may have in any firm providing goods or services to the Association;

(f) commencing at the end of the quarter in which the first Lot is sold and closed, the Board shall prepare financial reports for the Association at least quarterly containing:

(i) an income statement reflecting all income and expense activity for the preceding period on an accrual basis;

(ii) a statement reflecting all cash receipts and disbursements for the preceding period;

(iii) a variance report reflecting the status of all accounts in an "actual" versus "approved" budget format;

(iv) a balance sheet as of the last day of the preceding period; and a delinquency report listing all Owners who are delinquent in paying any assessments at the time of the report and describing the status of any action to collect such assessments which remain delinquent (any assessment or installment thereof shall be considered to be delinquent on the 15th day following the due date unless otherwise specified by Board resolution); and an annual report consisting of at least the following shall be prepared within 60 days after the close of the fiscal year: (i) a balance sheet showing actual receipts and expenditures; (ii) an operating (income) statement; and (iii) a statement of changes in financial position for the fiscal year. Such annual report shall be prepared on an audited, reviewed, or compiled basis, as the Board determines, by an independent public accountant. During the Class "B" Control Period, the annual report shall include certified financial statements.

(v) The Association shall provide each Owner or its authorized agent a copy of the annual financial report within 10 business days following receipt of a written request for access. In addition, if Texas law requires, the Association shall send a copy of the annual report to each Member by mail or personal delivery within 90 days following the close of the fiscal year.

3.22 Borrowing.

The Association may borrow money for any legal purpose; provided, the approval of Neighborhood Representatives representing a majority of the Class "A" votes in the Association is required if the proposed borrowing is (a) for the purpose of making discretionary capital improvements; and (b) the total amount of such borrowing, together with all other debt incurred within the previous 12-month period, exceeds or would exceed 15% of the Association's budgeted gross expenses for that fiscal year.

During the Class "B" Control Period, no Mortgage lien shall be placed on any portion of the Common Area without the affirmative vote or written consent, or any combination thereof, of Neighborhood Representatives representing at least 67% of the total Class "A" votes. After the Class "B" Control Period terminates, no Mortgage lien may be placed on the Common Area, nor may assessments be pledged as security for any loan, without the approval of Neighborhood Representatives representing at least a majority of the total Class "A" votes in the Association and such other approval as the Declaration may require.

3.23 Right To Contract.

The Association shall have the right to contract with any Person for the performance of various duties and functions. This right shall include, without limitation, the right to enter into common management, operational, or other agreements with trusts, condominiums, cooperatives, or Neighborhood and other Owners or residents associations, within and outside of the Community.

3.24 Enforcement.

The Association may impose sanctions for any violation of the Governing Documents. To the extent the Declaration specifically requires, the Board shall comply with the following procedures prior to imposition of sanctions:

(a) Notice. The Board or its delegate shall serve the alleged violator with written notice describing: (i) the nature of the alleged violation; (ii) the proposed sanction to be imposed; (iii) a period of not less than 15 days within which the alleged violator may present a written request for a hearing to the Board; and (iv) a statement that the proposed sanction shall be imposed as contained in the notice unless the alleged violator challenges the violation within 15 days of the notice. If a timely request for a hearing is not made, the sanction stated in the notice shall be imposed; provided, the Board or Covenants Committee may suspend any proposed sanction if the violation is cured, or if a diligent effort is made to cure, within the 15-day period. Such suspension shall not constitute a waiver of the right to sanction future violations of the same or other provisions and rules by any Person.

(b) Hearing. If the alleged violator requests a hearing within the allotted 15-day period, the hearing shall be held before the Covenants Committee. The alleged violator shall be afforded a reasonable opportunity to be heard. Prior to the effectiveness of any sanction hereunder, proof of proper notice shall be placed in the minutes of the meeting. Such proof shall be deemed adequate if a copy of the notice, together with a statement of the date and manner of delivery, is entered by the officer, director, or agent who delivered such notice. The notice requirement shall be deemed satisfied if the alleged violator or its representative appears at the meeting. The minutes of the meeting shall contain a written statement of the results of the hearing and the sanction, if any, imposed.

(c) Appeal. Following a hearing before the Covenants Committee, the alleged violator shall have the right to appeal the decision to the Board. To exercise this right, the alleged violator

must submit a written notice of appeal to the Association's manager, President, or Secretary within 10 days after being informed of the results of the hearing by the Association's manager or another Board officer or representative.

(d) **Additional Enforcement Rights.** Notwithstanding anything to the contrary in this Section, if permitted under the Declaration, the Board may elect to enforce any provision of the Governing Documents by self-help (specifically including, but not limited to, towing vehicles that violate parking rules) or, following compliance with the Declaration's dispute resolution procedures, if applicable, by suit at law or in equity to enjoin any violation or to recover monetary damages or both. In any such action, to the maximum extent permissible, the Owner or occupant responsible for the violation of which abatement is sought shall pay all costs, including reasonable attorneys' fees actually incurred.

3.25 Board Training Seminar.

The Board may provide or provide for seminars and continuing educational opportunities designed to educate and inform directors of their responsibilities as directors. Such programs may include instruction on applicable Texas corporate and fiduciary law principles, other issues relating to administering the Community's affairs, and upholding and enforcing the Governing Documents. The Board may retain industry professionals, which may include property managers, attorneys, and accountants, as appropriate or necessary for such purpose. The Board may require that each newly elected, and each re-elected director complete a training seminar within the first six months of assuming the director position.

3.26 **Board Standards.** In performing their duties, directors and officers shall act as fiduciaries and are subject to insulation from liability as provided for directors of corporations by Texas law and as otherwise provided by the Governing Documents. Directors shall exercise the ordinary and reasonable care of directors of a corporation, subject to the business judgment rule.

A director shall act in accordance with the business judgment rule so long as the director:

(a) acts within the expressed or implied scope of the Governing Documents and his or her actions are not ultra vires;

(b) affirmatively undertakes to make decisions which are necessary for the Association's continued and successful operation and, when decisions are made, they are made on an informed basis;

(c) acts on a disinterested basis, promptly discloses any real or potential conflict of interests (pecuniary or other), and avoids participation in such decisions and actions; and

(d) acts in a non-fraudulent manner and without reckless indifference to the Association's affairs.

A director acting in accordance with the business judgment rule shall be protected from

personal liability. Unless the Governing Documents require that specific action be taken, the failure to take such specific action shall not, without further showing that the Board acted in violation of the business judgment rule, be deemed a violation of a Board duty.

Board determinations of the meaning, scope, and application of Governing Document provisions shall be upheld and enforced so long as such determinations are reasonable. The Board shall exercise its power in a fair, nondiscriminatory manner and shall adhere to the procedure established in the Governing Documents.

3.27 Conflicts of Interest; Code of Ethics.

Unless otherwise approved by a majority of the other directors, no Class "A" Director may transact business with the Association or an Association contractor during his or her term as director or within two years after the term expires. A director shall promptly disclose in writing to the Board any actual or potential conflict of interest affecting the directors relative to his or her performance as a director. A director's failure to make such disclosure shall be grounds for removal by a majority vote of the other Board members. The Board may void any contract which creates a prohibited conflict of interest.

Notwithstanding the above, the directors appointed by the Class "B" Member may be employed by or otherwise transact business with Declarant or any Declarant Affiliate, and Declarant and its Affiliates may transact business with the Association and its contractors.

The initial Board shall create and adopt a written "Code of Ethics" applicable to all directors and officers. The Code of Ethics shall incorporate the above standards and other conduct rules it deems appropriate. At a minimum, the Code of Ethics shall require each officer and director to conduct himself or herself in manner consistent with the Board Standards described in Section 3.26. Each officer and director, as a pre-condition to service, shall acknowledge and agree, in writing, to abide by the Code of Ethics. The Code of Ethics may not be amended without the approval of Neighborhood Representatives representing at least a majority of the total Class "A" votes in the Association.

Article IV: Officers

4.1 Officers.

The Association's officers shall be a President, Vice President, Secretary, and Treasurer. The officers may, but need not, be Board members, Owners, or residents of the Community. The Board may appoint such other officers, including one or more Assistant Secretaries and one or more Assistant Treasurers, as it shall deem desirable, such officers to have such authority and perform such duties as the Board prescribes. Any two or more offices may be held by the same person, except the offices of President and Secretary.

4.2 Election and Term of Office.

The Board shall elect the Association's officers at the first Board meeting following each Association annual meeting. Officers shall serve until their successors are elected. Officers may not hold the same office for more than two consecutive terms.

4.3 Removal and Vacancies.

Any officer may be removed by a vote of at least 2/3 of the directors. The Board shall appoint a replacement to fill any vacancy in any office for the unexpired portion of the term.

4.4 Powers and Duties.

The Association's officers each shall have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as the Board may specifically confer or impose. The President shall be the Association's chief executive officer. The Treasurer shall supervise the preparation of the Association's budget, but shall delegate all or part of the preparation and notification duties to a finance committee, management agent, or both. The Secretary shall prepare or supervise the preparation of meeting minutes as required by Texas law.

4.5 Resignation.

Any officer may resign at any time by giving written notice to the Board, the President, or the Secretary. Resignation shall take effect on the date of the receipt of such notice or at any later time specified therein, and unless otherwise specified therein, acceptance of such resignation shall not be necessary to make it effective.

4.6 Agreements, Contracts, Deeds, Leases, Checks. Etc.

All agreements, contracts, deeds, leases, checks and other Association instruments shall be executed by an officer, unless the Board provides otherwise, or by such other Person or Persons as the Board may designate by resolution.

4.7 Compensation.

Officers shall not receive compensation.

Article V: Committees

5.1 General.

The Board may create such committees as it deems appropriate to perform such task and to serve for such periods as the Board may designate by resolution. In an effort to encourage and incorporate a broad base of Owner and resident participation in community governance, it shall be the Association's policy that the Board create and delegate its responsibilities to committees as

reasonably appropriate.

Committees shall exercise only such authority as granted by Board resolution, provided the Board may, in the exercise of its reasonable discretion, elect not to follow a committee's advice on any matter. Committees may not act without specific Board authority and may not bind the Association contractually or financially. Committee members may serve no more than two consecutive two-year terms on the same committee.

5.2 Covenants Committee.

The Board shall appoint a Covenants Committee consisting of at least three members. The Covenants Committee members shall be Members of the Association who are not directors, officers, or employees of the Association or the spouse, parent, child, brother or sister of a director, officer, or employee. Acting in accordance with the provisions of the Declaration, these Bylaws, and any Board resolutions, the Covenants Committee shall be the Association's hearing tribunal and shall conduct all hearings held pursuant to Section 3.24. The Board may not impose a fine without a majority vote of the Covenants Committee.

5.3. Neighborhood Committees.

In addition to any other committees appointed as provided above, each Neighborhood which has no formal organizational structure or association may elect a Neighborhood Committee to determine the nature and extent of services, if any, the Association shall provide to the Neighborhood in addition to those provided to all Members in accordance with the Declaration. A Neighborhood Committee may advise the Board on any other issue but may not bind the Association on any matter. Neighborhood Committees, if elected, shall consist of at least three Members elected by the Owners of Lots within the Neighborhood.

Any director elected to the Board from a Neighborhood shall be an ex officio member of the Neighborhood Committee. The Neighborhood Representative responsible for casting Member votes under the Declaration shall be the chairperson of the Neighborhood Committee, shall preside at its meetings, and shall be responsible for transmitting any and all communications to the Board. In the conduct of its duties and responsibilities, each Neighborhood Committee shall abide by the notice and quorum requirements applicable to the Board under these Bylaws. Meetings of a Neighborhood Committee shall be open to all Owners of Lots in the Neighborhood and their representatives. Members of a Neighborhood Committee may act by unanimous written consent in lieu of a meeting.

5.4. Other Committees.

In addition to the above, at such time as Class "A" Members other than Builders own 50% of the Lots anticipated for the Community under the Master Plan, or whenever the Class "B" Member earlier determines, the Board shall create the following committees, each of which shall have at least three members:

- (a) Finance Committee. The Finance Committee shall actively assist the Board, the

Treasurer, and the Association's managing agent, if any, in preparing the Association's budget. After termination of the Class "B" Control Period, Board approval of the Association's budget shall be subject to the Finance Committee's review and comment, which shall be advisory only and shall not bind the Board.

(b) Physical Maintenance Committee. After termination of the Class "B" Control Period, the Physical Maintenance Committee shall preside over maintenance of the Common Maintenance Areas.

(c) Dispute Resolution Committee. The Dispute Resolution Committee shall be established to mediate disputes concerning the interpretation of Use Restrictions, rules, and other Governing Document provisions and to advise the Board on initiating litigation involving the Association (as provided in the Declaration); provided, the Dispute Resolution Committee shall not preside over matters relating to the collection of assessments or other fees and charges. Each member of the Dispute Resolution Committee shall attend a Board-approved course on dispute resolution.

The Board shall establish by resolution the specific scope and limitations on the authority of the above committees.

Article VI: Miscellaneous

6.1 Fiscal Year.

The Association's fiscal year shall be the calendar year unless otherwise established by Board resolution.

6.2 Books and Records.

(a) Inspection by Members and Mortgagees. Subject to the protection of privileged and confidential information, the Board shall make available for inspection and copying by any holder, insurer, or guarantor of a first Mortgage on a Lot, any Member or the duly appointed representative of any of the foregoing at any reasonable time and for a purpose reasonably related to his or her interest in a Lot: the Governing Documents, the membership register, books of account, and the minutes of meetings of the Members, the Board, and committees. The Board shall provide for such inspection to take place at the Association's office or at such other place within the Community as the Board shall designate.

(b) Rules for Inspection. The Board shall establish reasonable rules with respect to: (i) notice to be given to the custodian of the records; (ii) hours and days of the week when such an inspection may be made; and (iii) payment of the cost of reproducing documents requested. Records shall be made available within 10 business days of the receipt of a written request by an Owner or his or her authorized agent.

(c) Inspection by Directors. Every director shall have the absolute right at any reasonable time to inspect all Association books, records, and documents and the physical properties the Association owns or controls. The director's right of inspection includes the right to make a copy of relevant documents at the Association's expense.

6.4 Notices.

Except as the Declaration or these Bylaws otherwise provide, all notices, demands, bills, statements, or other communications under the Declaration or these Bylaws shall be in writing and shall be deemed to have been duly given if delivered personally or if sent by United States mail, first class postage prepaid; or via electronic means:

(a) if to a Member or Neighborhood Representative, at the physical or electronic address which the Member or Neighborhood Representative has designated in writing and filed with the Secretary or, if no such address has been designated, at the address of the Lot of such Member or Neighborhood Representative;

(b) if to the Association, the Board, or the managing agent, at the principal office of the Association or the managing agent or at such other address as shall be designated by notice in writing to the Members pursuant to this Section; or

(c) if to any committee, at the principal address of the Association or at such other address as shall be designated by notice in writing to the Members pursuant to this Section.
Amendment.

6.5 Amendment.

(a) By Class "B" Member. During the Class "B" Control Period, the Class "B" Member unilaterally may amend these Bylaws. Thereafter, the Class "B" Member unilaterally may amend these Bylaws at any time and from time to time if such amendment is necessary: (i) to bring any provision into compliance with any applicable governmental statute, rule, or regulation, or judicial determination; (ii) to enable any reputable title insurance company to issue title insurance coverage on the Lots; or (iii) to enable any institutional or governmental lender, purchaser, insurer, or guarantor of mortgage loans, including, for example, the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation, to make, purchase, insure, or guarantee mortgage loans on the Lots. No amendment may adversely affect the title to any Lot unless the Owner shall consent thereto in writing.

(b) By the Board. Except as provided above, these Bylaws may be amended only by the affirmative vote or written consent of Neighborhood Representatives representing at least 67% of the Association's total Class "A" votes, and the consent of the Class "B" Member, if such exists.

Notwithstanding the above, the percentage of votes necessary to amend a specific clause shall not be less than the prescribed percentage of affirmative, votes required for action to be taken

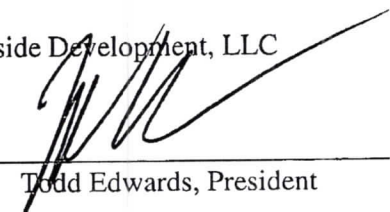
under that clause. The approval requirements set forth in Article XVI of the Declaration also shall be met, if applicable.

(c) **Validity and Effective Date of Amendments.** Amendments to these Bylaws shall become effective upon Recordation unless a later effective date is specified therein. Any procedural challenge to an amendment must be made within six months of its Recordation, or such amendment shall be presumed to have been validly adopted. In no event shall a change of conditions or circumstances operate to amend any provisions of these Bylaws.

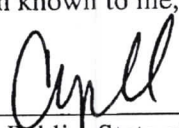
No amendment may remove, revoke, or modify any right or privilege of Declarant or the Class "B" Member without the written consent of Declarant, the Class "B" Member, or the assignee of such right or privilege. No amendment may remove, revoke, or modify any right or privilege assigned specifically to the Owners of Non-Residential Lots without such Owners' written consent.

DECLARANT:

Bayside Development, LLC

By: 
Todd Edwards, President

SUBSCRIBED AND SWORN to before me by Todd Edwards, as President of Bayside Development, LLC and on behalf of said company, a person known to me, on this the 11TH day of April, 2016.


Notary Public, State of Texas

