

## Synopsis of Revised Middle Island Covenants Necessary to Conclude Transition to Self-Governance

The Amended and Restated Declaration of Covenants, Conditions, and Restrictions of Middle Island ("the Covenants") is the key document in the transition to owner control of Middle Island. The Covenants provide a strong foundation and organizing structure for Middle Island property owners to work together to maintain the quality and integrity of our special community and enhance our property values.

The Covenants describe the governance and funding of the planned community and the conditions and restrictions that apply. Specifically, the Covenants:

- restate, with minor amendments, provisions already in the existing covenants for Middle Island or the Bald Head Association;
- identify the Association's common areas and amenities, which Young Entities will transfer to the Middle Island Property Owners Association (MIPOA) if these covenants are approved;
- adopt the provisions of the North Carolina Planned Community Act (PCA); and
- adopt additional provisions governing how MIPOA will operate, including significant restrictions on the Association's ability to increase annual dues or impose special assessments.

Adoption of the PCA provides important protections to Middle Island property owners and allows MIPOA to equitably distribute the costs of maintaining the roads and common assets: The PCA includes:

- a statement of the limited powers of the association and the board (restated in the Covenants), including notice and quorum requirements for annual and special meetings of the property owners;
- a transparent budgeting process to establish the annual assessment ("dues"), including a way for property owners to reject the proposed budget and proposed dues, provisions that we have restated in the Covenants with specific dates, specific methods for allocating costs, and the initial dues for 2015;
- provisions governing insurance, which we have further addressed in the Covenants;
- a process for collecting assessments, including, if necessary, the ability to place an enforceable lien on the property (without this lien provision, the Association could not fairly and effectively maintain the roads and amenities and therefore could not responsibly take possession of them from Young Entities);
- additional property owner protections, including a requirement for supermajority votes to change the covenants and to levy special assessments.

The proposed Covenants also include the dues amounts for 2015 and these additional protections:

- restrictions are placed on non-budgeted Board expenditures;
- dues increases are limited to a maximum of 5% a year;
- specific reserve funds are established for each type of asset, with part of the dues allocated to these funds based on the replacement cost and useful life of the asset and the proviso that major repairs and replacements must be funded first from the reserve fund for that asset, further decreasing the likelihood of a special assessment;
- after careful study and consultation with insurance experts, the roads and amenities have been determined to be not insurable at a reasonable cost; it is our intent that in the unlikely event of a weather catastrophe, this determination will allow property owners to prioritize rebuilding, to the extent that the cost of major repairs and replacements exceeds the funds in the assets' specific reserve fund, and to consider a full range of alternatives for replacing these uninsurable assets;
- In consideration of the contribution to the paving of East Beach Drive by the Owners of the Capel Tract and their agreement to maintain the roadway located on the Capel Tract, the Association grants the existing Capel Improved Lot a waiver of dues for ten (10) years beginning with the first Assessment. Thereafter, the existing Capel Improved Lot shall be assessed dues in the same manner as all other Lots. This waiver of dues does not apply to any other Lot that may be created by subdivision within the Capel Tract. Any such Lot created by subdivision shall be assessed dues in the same manner as all other Ocean Front or Second Row Lots, as of and after it is subdivided.

Finally, the proposed Covenants restate and reorganize the existing provisions of the original covenants, including the Middle Island architectural review process, siting and setback provisions, and other rules and restrictions. Some provisions that have been superseded by Village ordinances, such as tree cutting, have been modified or omitted. The maximum size of a residence has been reduced from 10,000 to 7,500 heated square feet, which is larger than any existing residence on Middle Island. Building improvements on any Lot shall not exceed 7,500 heated square feet; provided, however, that when either a) two or more Lots have been combined to form a new Lot, or b) when a platted Lot other than a Maritime Forest Lot exceeds twenty one thousand seven hundred eighty square feet, then building improvements on the resulting Lot shall not exceed 10,000 heated square feet.

The MIPOA Board believes the proposed covenants provide a clear and well-balanced governance structure for the management and stewardship of Middle Island by the property owners.