

MEMORANDUM OF UNDERSTANDING

THIS MEMORANDUM OF UNDERSTANDING, is entered into this 23rd day of August, 1999 by and among the Town of Chapel Hill, North Carolina ("Town"), the Chapel Hill Public Library Foundation ("Foundation"), and William S. Stewart as Trustee ("Trustee") of the trust under the Last Will and Testament of Cornelia Spencer Love ("Trust") in order to formalize the terms concerning transfer of the Trust assets to the Foundation for the benefit of the Chapel Hill Public Library ("Library"):

BACKGROUND

Cornelia Spencer Love died in 1981 leaving assets in Trust for the benefit of the Library. Mr. Stewart serves as Trustee of the Trust.

Mr. Stewart wants to retire as trustee of the Trust. The will provides that he "may at any time resign and (1) terminate the trust by paying over the trust estate as then constituted to the Town of Chapel Hill for the use and benefit of the Chapel Hill Public Library or (2) pay over the trust estate as then constituted to a bank or trust company with fiduciary powers doing business in North Carolina as successor trustee of the trust created herein." The Town, the Foundation, which was not in existence when Ms. Love died, and the Trustee would like for the assets of the trust to be transferred to the Foundation, but recognize that such a transfer will require Court approval.

The Town, Foundation and Trustee enter into this Memorandum of Understanding setting forth certain terms and conditions for the Trust assets effective if the Court approves the transfer of the Trust assets ("Assets") to the Foundation and if such transfer occurs.

UNDERSTANDING OF THE PARTIES

NOW, THEREFORE, the undersigned have reached the following understanding if the Trust assets are transferred to the Foundation:

1. The Foundation shall hold all Assets in a separate fund and shall manage such fund in accordance with the Uniform Management of Institutional Funds Act as set forth in Chapter 36B of the North Carolina General Statutes and any amendments thereto.
2. The Foundation shall distribute to the Town, for the benefit of the Library, all income earned on the Assets (as determined under the North Carolina Principal and Income Act then in effect) with the goals of increasing the principal balance of the Assets and that such income shall exceed 3.5% of the annual Asset balance calculated as of the beginning of each calendar year. Such amount shall be paid out on a quarterly basis with the first quarterly payment commencing no later than March 31st of each year. The Foundation in its discretion and in the best interest of the Library may distribute additional amounts for the benefit of the Library.

3. The Town may request additional distributions of Assets from the Foundation for the benefit of the Library which the Foundation may distribute, or not distribute, in its discretion for the benefit of the Library.

4. The Foundation may employ independent money managers to advise or assist with the management of the Assets.

5. The Foundation shall maintain insurance to protect the Assets against malfeasance by representatives of the Foundation in an amount at least equal to the total of the Assets and shall require evidence of insurance in a similar amount protecting the Assets from any money managers or others involved with the Assets.

6. The Foundation shall provide to the Town annually an independent audit report on the financial statements of the Foundation as well as a specific report of the annual activity of the Assets and a description of the Foundation's investment policies and procedures. In addition, the Foundation shall provide quarterly reports to the Town showing the current balance of the Assets.

7. The Town or its designees including representatives of the Library may inspect the records of the Foundation with respect to the Assets as well as the Foundation's general investment policies and any reports filed with the Internal Revenue Service and the State of North Carolina including the Office of the North Carolina Attorney General.

8. The Foundation shall maintain its status as an organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (or the corresponding provisions of any future Federal tax code) and shall continue to operate for the sole benefit of the Library.

9. In the event the Foundation is dissolved, or ceases to qualify under § 501(c)(3) of the Internal Revenue Code, all remaining Assets shall be distributed in accordance with the Foundation's Articles of Incorporation and applicable state law, provided that the Assets shall be used solely for the benefit of the Library, or alternatively such Assets shall be distributed to the Town of Chapel Hill to be used for the benefit of the Chapel Hill Public Library.

10. The Foundation may use the Assets to cover various operating expenses related to management of the Assets including, but not limited to, audit, tax, investment and related legal expenses up to a maximum amount, which may not exceed the amount Central Carolina Bank would charge to be trustee of a charitable trust the size of the Assets.

IN WITNESS WHEREOF, the undersigned accept the terms of this Memorandum of Understanding as of the day and year first above written.

TOWN OF CHAPEL HILL, NORTH CAROLINA

By: W. Calvin Horton eslc

Its: Town Manager

CHAPEL HILL PUBLIC LIBRARY FOUNDATION

By: Robert E. Woodliff

Its: President

TRUSTEE

William S. Stewart

**WILLIAM S. STEWART, TRUSTEE
UNDER THE LAST WILL AND TESTAMENT OF
CORNELIA SPENCER LOVE**