October 12, 2010

The Honorable Charles Grassley  The Honorable Thomas Coburn, M.D.
United States Senate  United States Senate
135 Hart Senate Office Building 172 Russell Senate Office Building
Washington, D.C. 20510 Washington, D.C. 20510

The Honorable Jon Kyl  The Honorable John Cornyn
United States Senate  United States Senate
730 Hart Senate Office Building 517 Hart Senate Office Building
Washington, D.C. 20510 Washington, D.C. 20510

Dear Senators Grassley, Coburn, Kyl and Cornyn:

As indicated in our response of July 20, 2010, the Board of Governors of Boys & Girls Clubs of America (BGCA), the Executive Committee, the Finance Committee, the Human Resources & Compensation Committee and the Investment Committee have been discussing several topics important to our organization. In many cases these discussions began before your letter of March 12, 2010, and in all cases, the appropriate committees have worked diligently to review the situation and recommend appropriate actions. The various committees met over the last few months, made recommendations to the Executive Committee and on September 14, 2010, the board discussed and approved several actions.

It is our hope that this update will further our discussions concerning the operations of BGCA and help bring us closer to a final resolution of this inquiry. As such, please consider the following information as part of our response.

I. Use of Endowment Funds

Background

As set forth in our response of July 20, in addition to using the investment income from our endowment to support the critical services of BGCA, the Board of Governors has historically approved the use of reserves in two major areas:

- To provide direct funding for local Clubs: This has taken the form of capacity building grants; growth grants; scholarship funds for training and an endowment for our Native American Clubs. (Note: This is in addition to the funds BGCA generates annually for Clubs from public and private sources which exceeded $150 million in 2009.)
- To finance new initiatives and specials projects: This has taken such forms as evaluation studies that assess and demonstrate the impact of our Clubs and national programs; technology advancements; a new cause marketing campaign to generate pass through funding for Clubs; and the start-up of new projects and initiatives.


The Three Year Plan for Use of Reserves

In keeping with BGCA’s historical use of reserves, BGCA management requested the Board of Governors’ approval to use up to $19.5 million from reserves over a three year time period beginning in September 2010. (This request is in addition to the board approved five percent spend rate that is expected to be needed to maintain and support BGCA’s services to Clubs.)

More specifically, given the current economic environment and its impact on national and local fundraising and Club operations, BGCA requested the following:

- Up to $5 million annually ($15 million over three years) to the local Clubs to build their strength and capacity.
- Up to $1.5 million annually ($4.5 million over three years) to be used towards initiatives that will advance the impact of local Clubs and programs in order to better serve youth.

The Finance Committee approved management’s proposed three year plan of use of up to $19.5M from reserves. Likewise, the Executive Committee voted to approve the recommendations.

Action Taken

The Board of Governors voted to approve the three year plan up to $19.5 million, to be annually evaluated and appropriately allocated subject to need, effectiveness and availability of funds. The board also approved an initial allocation of $10 million for 2010 and 2011.

II. President and CEO Compensation

As set forth fully in BGCA’s response of April 20, 2010 and July 20, 2010, the Board of Governors followed a rigorous process to determine the appropriate compensation structure for the President and CEO, including the need for and amount of a Supplemental Executive Retirement Program (SERP) for the President and CEO. The Board continues to stand behind the process, the amount and the decisions related to the SERP.

Current Environment

- As a result of the changing environment, the President and CEO, concerned about the impact of negative media on the local Clubs, respectfully requested that the Board of Governors defer any future SERP accruals after 2008.
- As previously disclosed, in May 2010, the Board of Governors, after much discussion, approved this request and deferred any future accruals for both SERPs after 2008.

Action Taken

Over the course of several meetings this summer, the Human Resources & Compensation Committee reassessed the President and CEO’s SERP and made recommendations to the full board. At her request, The Executive Committee and the Board of Governors approved on September 14, 2010 to eliminate the second SERP altogether and permanently end all future
accruals (after 2008) to the first SERP. The net effect of these actions will be to significantly reduce the amount of the SERP paid for President and CEO.

III. Offshore Investments

Background

While it is legal for BGCA to invest in offshore funds and is a common practice in the nonprofit industry to use offshore vehicles for investing in hedge funds, BGCA recognizes through this inquiry that this practice is being questioned.

As set forth in our July 20 response, BGCA has considered if and how we might engage in a policy level discussion regarding offshore investments, and if BGCA might play a supportive role in efforts to modify the related tax laws and regulations. After much discussion, the Investment Committee recommended to the Executive Committee and the full board that BGCA explore the opportunity to participate in any policy discussions. In addition, in accordance with their fiduciary responsibilities, they recommended continuing to invest in such offshore funds when appropriate until regulations are changed and consistently applied to all nonprofit organizations. The Investment Committee sought direction from the Executive Committee regarding investments in offshore hedge funds.

Action Taken

After careful deliberation, the Executive Committee felt that the best course of action is to (1) continue to look for onshore investments with equivalent returns and if found, move funds onshore without causing any adverse financial impact; (2) offer to engage and fully participate with you and other interested members of Congress in policy discussions related to nonprofits and offshore investments and work to advance reform where needed; and (3) continue to abide by the applicable laws and regulations and any changes thereto. The Board of Governors approved the Executive Committee’s recommendation.

IV. Reauthorization

Currently, there is an increasing need for the critical services Boys & Girls Clubs provide to the young people in our country. As such, Boys & Girls Clubs of America plans to adjust its request for reauthorization to include a strategic growth agenda to reach and impact even more of the growing number of young people who need our Clubs the most.

V. Conclusion

As I expressed when we met in Washington, DC this summer, we take this process very seriously and continue to view it as an opportunity to strengthen our operating policies. As noted, some of the discussions related to the above actions were in process before we received your request for information but we appreciate your oversight responsibilities as we make important decisions to strengthen BGCA. Should you require any further details related to the above actions, please do not hesitate to contact me or Boys & Girls Clubs of America’s General Counsel.
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It continues to be our hope that our responses will demonstrate that BGCA has been and will continue to be a responsible steward of its funding from all sources, including, importantly, the citizens of the United States. BGCA will of course continue to cooperate fully but please understand that closure of this matter will allow BGCA to focus solely on its mission of serving children. I believe we can all agree that the number of children “who need us most” continues to grow and as a country we need to find a way to serve them.

Sincerely,

[Signature]

Robert J. Bach, Chairman  
Boys & Girls Clubs of America  
Board of Governors

cc: Ms. Roxanne Spillett  
Ms. Kristine Berry Morain