Response to June 9 Follow-up Questions from U.S. Senators

Following is a summary of responses we are preparing to the additional questions posed to Boys & Girls Clubs of America (BGCA) on June 9, 2010, by the four senators, as a follow-up to their initial query in March.

Offshore Funds / Other Investments

The senators have asked several follow-up questions related to BGCA’s investments, including its use of “offshore” funds.

The Board of Governors, through its Investment Committee, makes BGCA investment decisions, with the advice of Cambridge Associates, a nationally-known independent consulting firm that works with many leading nonprofit organizations. The Investment Committee diligently fulfills its fiduciary responsibility by having a well-managed diversified investment portfolio that strives to maximize risk-adjusted returns. To do so, the committee invests in a wide variety of asset classes.

Some of BGCA’s investments are in funds that are registered in foreign countries, but invest primarily in U.S. stocks and bonds. According to Cambridge, the vast majority of nonprofits that invest in hedge funds utilize such “offshore funds” because they provide tax advantages. Such use by nonprofits is expected to continue unless or until applicable laws change. While these investment practices are completely legal, routine and widely implemented by large nonprofit organizations, lawmakers have recently raised some criticisms about such practices, which is likely why the question is being raised. We are currently gathering the requested details about each of the offshore funds.
To reiterate, while it is legal for BGCA to invest in such funds, we recognize that the overall practice is under scrutiny. As a matter of good practice and governance, therefore, our Board of Governors is reviewing the overall asset allocation plan to determine if changes in any aspects of the plan are warranted.

**Use of Endowment Funds, Investments**

This question from the senators involves the amount of endowment assets BGCA uses and the purposes for which those assets are directed. BGCA’s endowment assets consist of three funds: restricted endowment funds, unrestricted endowment funds and unrestricted reserve funds.

Restricted endowment funds must be used for the purpose specified by the donor. Most of these funds are designated by donors to be used by BGCA for the purpose of providing specific services to benefit Clubs.

Unrestricted endowment funds and unrestricted reserve funds can be used annually in accordance with the BGCA Board of Governors-approved spend rate of up to 5 percent of the three-year rolling average of these funds. BGCA’s board established this spending policy to ensure that the real value of the investments (inflation adjusted purchasing power) is maintained over time. The unrestricted endowment and reserve funds are used primarily for three purposes: (1) To support the wide range of ongoing services BGCA provides to local Clubs, including services that generate significant revenue for Clubs; (2) To pass through funds to local organizations for a variety of purposes, including: capacity-building; mergers and growth; scholarships enabling local Club executives and local board members to participate in the Advanced Leadership Program; and assistance to our Native American Clubs whose fundraising opportunities are severely limited; and (3) To finance special initiatives, such as: evaluation studies that document impact; technology projects; and the start-up of new services, such as a new cause marketing campaign designed to deliver millions more in revenue to local Clubs.
In 2009, as BGCA engaged in its budgeting process for 2010, the organization budgeted $9 million in drawdown from unrestricted endowments and reserves, to be used during 2010 for the three purposes outlined above. While $9 million significantly exceeds the allowable spend rate, the board approved this exception, given the economic challenges of the times, to provide additional, much-needed support.

Recognizing that the current economic situation will likely continue through 2011 and beyond, the national organization’s management is continuing to work with BGCA’s Finance Committee to formalize a three-year plan that will address the three purposes previously noted, with a special emphasis on increased funding for local Clubs. The anticipated use of these unrestricted endowment and reserve funds will significantly exceed the current board-approved spend rate and require board approval. It should be noted that this drawdown is in addition to funds that BGCA routinely generates for Clubs, which totaled more than $150 million in 2009.

Compensation / Industry Rankings

The follow-up questions regarding compensation focused primarily on the basis for determining appropriate compensation levels. To attract and retain the best qualified, talented and dedicated leadership, the Board of Governors, through the Human Resources and Compensation Committee (HRCC), strives to make the organization fully competitive with similar organizations.

Approximately every two years, the HRCC retains an independent, executive compensation consulting firm to evaluate BGCA’s executive compensation philosophy and pay practices. As part of the evaluation, the selected consultant identifies appropriate comparison measures, including revenue scope for each senior leadership position, and reports this to the HRCC.

The question raised is whether total Boys & Girls Club system-wide revenue, or just the revenue associated with the national organization, should be used as a
comparison metric for senior leadership compensation. Currently, system-wide revenues are used as comparators for several members of the senior leadership team whose roles and responsibilities have system-wide impact. The independent consultants strongly believed that this approach is appropriate, based on the leadership and direction these positions provide for all Boys & Girls Clubs. The HRCC concurred.

The total amount of compensation for these positions is determined in full accordance with IRS guidelines for nonprofit organizations. In every instance, the independent consultant has concluded that, when measured against the compensation and benefits paid to peer executives at similar complex national nonprofits, BGCA’s senior leadership compensation is in line with the industry, and appropriate.

The senators also asked follow-up questions related to the Supplemental Executive Retirement Plan (SERP) for BGCA’s president/CEO. In the response to the senators’ first request in March, BGCA provided details related to the extensive process behind the decision to implement the SERP. The Board of Governors stands fully behind the SERP, the amount and the process that led to the approval.

That being said, the HRCC agreed to reassess the supplemental retirement benefits program and the entire CEO compensation package in light of the following:

- President and CEO Roxanne Spillett has respectfully requested that the amount be reassessed.
- The HRCC had already decided, before this inquiry began, that as part of the process of finding an eventual successor, there is a need to appropriately structure a future compensation package that is competitive.
While this assessment is being conducted, at the request of Roxanne Spillett, the Board of Governors voted to defer any additional accruals to the current SERP funds since the 2008 accrual. As a result, the 2009 Form 990 does not include any SERP accrual.

For further reference regarding the appropriateness of the compensation, please see the following.

  - Ms. Spillett's annual salary ranked **107 among 448 nonprofit organization CEOs listed**.
  - For nonprofit organizations with more than $1 billion in annual revenues, she ranked **62 among 77 CEOs**.
  - If BGCA were listed among organizations with between $100 million and $499 million in annual revenue, she would rank **27 among 189 executives**.

**Club Sustainability / Efforts to Prevent Closures**

The senators asked for details about Clubs closings, including reasons that Clubs close, and actions BGCA has undertaken and does undertake to prevent such closings. Since 1996, the number of Boys & Girls Clubs has doubled, from some 1,800 Clubs to 4,000, a significant net gain. Given the challenges and inherent risks in many of these new Club starts, every year there were Clubs that closed, for a variety of reasons. A major reason is that many of these Clubs operate in locations such as schools and public housing, where closure or discontinuation of space is determined by external, non-Club decision makers. Other causes include: consolidating Club facilities due to changing neighborhood needs or demographics; failure of local Clubs to meet BGCA membership requirements; and the inability of local boards to generate sufficient operating revenue to sustain sites. Put in perspective, on average, 80 to 90 Clubs closed each year --
many operating in small school sites. The Club sites that eventually closed were in operation for an average of five years.

Keeping Clubs open involves more factors than financial resources alone. While the national organization does not open or close Clubs, BGCA works with community leaders to help establish Clubs; BGCA also works aggressively with these community leaders to minimize Club closures. In 2009, these efforts prevented more than 120 Club closures. Most importantly, BGCA field staff work with local organizations to strengthen board and executive leadership, the key to sustainability for local Club organizations and sites.

BGCA also provides support for Clubs financially in many ways, including generating funds for local Clubs from a variety of sources. In 2009, BGCA generated more than $150 million in financial support for local Clubs from federal pass-through funding, private sector pass-through funding and state funding. In addition, as stated earlier, BGCA uses its unrestricted board reserves and endowment to provide funding for local Clubs in such areas as capacity-building and mergers/consolidations. To support Native American Clubs operating in very challenging environments, BGCA seeks special Native American funding from tribes with the capacity to contribute, private donors and government dollars, resulting in nearly $10 million in funds to support Native American Clubs.

In addition, BGCA works with partners to provide pro bono support that offsets investments Club would otherwise need to make. For example, to support local Club technology assets, BGCA – through a corporate partner – provides Clubs with the license for their operating systems at no cost. BGCA has also helped to make possible the hardware and software for nearly 2,000 Club technology centers.

Furthermore, BGCA established a Resource Development Club Services team that works with local organizations to improve fundraising effectiveness, with an
emphasis on building individual giving capacity. This includes providing assistance to Clubs in such areas as individual giving annual campaigns, major gifts, online giving, direct mail and planned giving. This team has helped local organizations secure more than $100 million in planned giving expectancies.

It should be noted that BGCA met every goal for every authorization for which funding was fully appropriated.

**Accounting Rules**

The senators asked some technical follow-up questions regarding the reporting of multi-year pledges on the Form 990 and under the accounting rules of FASB (Financial Accounting Standards Board). BGCA will provide responses and documentation to show how it accounted for such pledges.

**Government Relations Transition Plan and Lobbying Expenses**

This set of follow-up questions regarding lobbying expenses appears to seek a better understanding of the role of BGCA’s Government Relations department and its overall lobbying expenses. Securing federal and state funding is vital to the execution of BGCA’s mission and is a major role of BGCA’s Government Relations staff. At a federal and state level, Government Relations staff serve as advocates for youth development, and as a resource for Congress and other interested state and federal agencies that interact with the organization. The senior vice president (SVP) of Government Relations spends a portion of his time performing lobbying activities. In addition, he manages the Government Relations department, supervises staff and manages outside consultants, all to benefit local Boys & Girls Clubs.

Another question sought to understand why BGCA utilized outside contractors when we have a Government Relations office. Following the resignation of our
longtime SVP of Government Relations, the Government Relations Committee of the board determined that the office of Government Relations in Washington, D.C., needed a reassessment and a transition plan. The transition plan included forming a team of staff and highly experienced outside lobbyists and consultants who would work together with BGCA Government Relations leadership to address federal and state funding and other strategic matters. As part of the strategy, BGCA downsized its office and staff in Washington, D.C. to one person, resulting in significant cost savings.

It should be noted that BGCA's overall lobbying expenses include fees for outside consultants who work at both the state and federal levels. These expenditures are well within established guidelines for nonprofit organizations. Absolutely no federal funds are used to pay for these expenses. Further, BGCA does not lobby for itself; rather, it lobbies on behalf of its local Clubs.

**External Vendor Expenses**

The senators raised questions regarding expenses from different vendors, including one vendor that had multiple contracts. BGCA has utilized this vendor for more than 12 years to work in concert with us to develop highly successful nationwide initiatives. This work has included grant monitoring; conducting regional and national training events; conducting detailed needs assessments; the development of curricula, operational materials and databases; government relations consulting; and the development of targeted expansion efforts and plans. BGCA carefully reviews each contract to ensure it meets an organizational need and monitors each of the contracts to ensure compliance with the scope of services. BGCA will respond by describing the various contracts and delineating the services in each contract.