

The National Arts Club
15 Gramercy Park South, New York, NY 10003-1796

September 2, 2011

Dear Fellow Members:

I hope this letter finds you healthy, rested and ready for an exciting, new season of the National Arts Club. I know our members are interested in the status of their Club and so today I write you to share what has been happening at the NAC since March of this year. It has been a complicated, often painful time that has required a lot of hard work on the part of the Board, staff, and many members. We continue to face trials and tribulations, but we also have an unprecedented opportunity to make our Club stronger, more dynamic and more relevant than ever. The National Arts Club will continue to fulfill its mission to stimulate, foster and promote public interest in the arts and educate the American people in the fine arts.

Investigations & Discovery

Last winter, after a series of incidents at the Club instigated by Aldon James, the Board recommended that he take a leave of absence while we addressed issues relating to his presidency. He agreed to accept a leave and as you know, this generated a lot of press. We had all hoped the NAC could escape further attention from law enforcement, but that was not the case. The day after Aldon James stepped aside, the Club received a subpoena from the New York State Attorney General's Charity Bureau (AG), which regulates charitable organizations such as ours. Soon after, that was followed by the District Attorney of New York County beginning a new investigation into potentially criminal activities at the Club. Specifically, the AG's subpoena appeared to suggest that during the period of time since the Club was previously investigated by that office, nothing had been done to change the way the Club operated, and that the Club's finances may have been mishandled. Your new Board immediately took many steps to address the concerns of law enforcement, as well as to proactively reform the Club and shore up its troubled operations.

We began by assessing the physical situation of the Club. Despite efforts made by the Board (including a Board resolution in November 2006 reserving the final approval of leases to the

Board), the Board had not been fully informed of the status of numerous rooms, apartments and spaces in the Club for many years. Only Aldon James, Steven Leitner, as Chair of the House Committee, and John James (the “James Group”) knew how these spaces were being used.

As the Board began to investigate, we learned that more than a dozen apartments, Club rooms and other spaces were controlled by the James Group. These spaces were abhorrently dirty and disorganized, randomly stuffed with personal belongings, important Club documents, flea market trinkets, and infested with vermin and insects. While cleaning out these spaces many dead rats were found. We then began the laborious process of reclaiming these spaces and examining the documents in them in order to piece together the facts concerning the Club’s history, finances, and lawsuits which were filed during the past decade or more. Much of this had been hidden from the Board and the membership for many years.

Although the Board has reclaimed many of the spaces that were unilaterally taken and occupied by the James Group, the James Group still controls six apartments, two of which do not have leases. The Club’s attorneys are working to recover the apartments for which leases do not exist, and are addressing the potential self-dealing aspects of the units that do have leases. As a matter of record, Aldon James awarded his brother Unit 4C as of January 1, 2011, in a private lease transaction despite the November 2006 Board resolution passed at the suggestion of Bill Samuels that expressly forbids such a transaction. Both the manner and the market value of this transaction are highly questionable.

NAC employees, dedicated members and volunteers helped to clear out many of the spaces controlled by the James Group, and they have been working constantly to sort and file the large volume of documents. Mounds of papers have been found stashed and strewn throughout the Clubhouse including dozens of stale checks payable to the NAC, which had never been delivered to the NAC’s bookkeepers. During the process of organization, many things came to light, and all relevant and subpoenaed documents were turned over to the New York State and City authorities – approximately 25,000 pages to date. However, many documents are still missing, and NAC financial and administrative records are still largely incomplete.

For those of you who are interested in reading the subpoena served by the Attorney General, you are welcome to contact the Club’s office to review it.

The law enforcement inquiries we have had to deal with are very serious and could result in sanctions and fines, particularly if the authorities involved decide that the Club’s funds were wasted or misapplied. In the interest of complete transparency, I feel an obligation to tell you it is not beyond the realm of possibility that the AG could appoint a Receiver to take over the Club’s management. It is also possible that the Club itself could be subjected to criminal charges. For these reasons, we are working cooperatively, diligently and genuinely with the AG to reform the Club’s operations.

Over the last six months, lawyers, accountants, administrators, contractors, cleaners, designers, staff, members and others have worked together, often volunteering considerable time and resources, to make possible a truly extraordinary volume of improvement. I am particularly

proud of our NAC staff, who have worked ceaselessly to help save our Club, implement fair and open practices, and restore the NAC to the position it once held. They are inspiring.

Key Activities of the Last Six Months

- Cleaned out most hoarding rooms and apartments.
- Made transient rooms ready and available for members and guests (*in progress*).
- Reviewed and repaired the Clubhouse member areas which were generally soiled and in certain cases potentially dangerous to the building and the members. This included an industrial cleaning of all member spaces, electrical repairs, refinishing of floors, painting of walls, changing of permanently damaged carpets, repairing and replacement of broken picture frames, reupholstering of broken and worn furniture, replacement of dangerously broken dining room chairs and table tops, replacement of broken kitchen appliances and much, much more.
- Reclaimed Club spaces, including offices that had been used to store random Club files, flea market trinkets purchased with Club funds, and the James Group's personal belongings including birds and other personal property.
- Conducted a full inventory and a complete, updated appraisal of all of the Club's art holdings. This was undertaken by a team of 19 certified and esteemed appraisers, who have also made certain that all artwork not currently on display is safely and properly stored.
- Updated and replaced dining room menus.
- Reinstated arbitrarily terminated (and beloved) employees.
- Installed a closed-circuit television security system throughout the building.
- Cleaned and renovated the reception office for a more professional and welcoming experience.
- Created a draft Employee Handbook.
- Created a draft Board Handbook.
- Created a draft Committee Handbook.
- Streamlined the programming process, formalizing policies to be fair to all.
- Hired attorneys, real estate appraisers, forensic accountants, auditors and a new accounting firm, to assist the Club in determining whether any financial mismanagement occurred, and to assist the Club in getting its finances and accounting records in order.
- Engaged an executive recruiter specializing in private club management, to identify potential candidates for a professional General Manager.
- Repaired damaged relations with our neighbors living and working around Gramercy Park.
- Created an executive committee of the Board to manage the Club's operations between Board meetings and swiftly deal with issues as they arise.
- Documented all proceedings at Board meetings to create a Club record, a practice which had been largely previously abandoned.
- Updated and redesigned our Club website.
- Established a "Member Comments" email account that was announced at the Annual Members' Meeting. My office has received a large volume of correspondence by both regular and e-mail. Thank you for your comments, complaints and suggestions, which have been very enlightening and helpful.

Internal charges filed against the James Group

The Board has authorized the commencement of internal Club hearings to determine the validity of charges which have been filed against Aldon James, Steven Leitner and John James, and to decide whether any discipline should be imposed on them. We believe strongly that our membership should be aware of the Club's actions. For any member who wishes to know the nature of the charges filed, the Club's Office will allow such member to read the charges in the Office, only after signing an agreement to keep the information in the charges confidential and not to discuss that information with anyone who is not a member of the Club. A lengthy memorandum describing the Club's internal investigation will not be made available to members unless the three charged members agree that it should be made available to the membership, because we wish to mitigate the embarrassment that would be involved in the disclosure of all of the details of the investigation by the Club's counsel.

Twice now, the James Group has had the Club's internal disciplinary hearing postponed, and they have now filed a civil lawsuit against the Club and the Board in an attempt to prevent the Board from carrying out its constitutional duty to fairly investigate matters that directly affect our Club, Clubhouse and membership, and to discipline members whose conduct may be found to harm the Club or violate its Constitution, By-Laws or Rules.

It is our goal to maintain transparency, fairness and integrity regarding this situation. It is a particularly difficult period as, for many years, Aldon James has been our friend, and has exhibited leadership qualities. However, the gravity of the charges and the considerable impact his actions have had on each of us – financially, personally, and in regard to our Club's mission – has led to feelings of betrayal. The vast majority of the Board hoped to act swiftly and privately in addressing and remedying this situation. Unfortunately due to the new lawsuit filed by the James Group, which attaches a copy of the Statement of Charges to the papers the James Group publicly filed, we will be involved in litigation for the foreseeable future, as we continue to press forward with our internal disciplinary charges.

The Board is duty-bound to act on behalf of the Club and the membership, given the direct impact the alleged wrongdoing of the James Group has had on the Club and its members, and the costs we will all incur to repair the considerable damage done to the Club over many years. Simultaneously, we must remember the great privilege we have in our exceptional Club. If we all pull together, stay true to the mission the framers of the NAC Constitution set and continue to celebrate the uniqueness of the NAC, then we will move forward toward a much brighter future. I look forward to speaking and working with all of you during the coming season, as we continue the rebirthing process of this wonderful and special organization.

Thank you all for your ongoing support and commitment.

Dianne Bernhard

President