

July 5, 2006

John E. McDonald, Manager
Department of Financial & Management Services
James City County
101-F Mounts Bay Road
P. O. Box 8784
Williamsburg, Virginia 23187-8784

Dear Mr. McDonald:

This will follow up on your recent conversation with our attorney, Penn Rogers of LeClair Ryan, and respond to your questions about the compensation practices of Philanthropic Research Inc. (GuideStar) and the benefits it provides to the County, in connection with GuideStar's application for exemption from personal property tax.

In general, our compensation practices are guided by two important elements: (1) our national focus and status, and (2) guidelines issued by the IRS on compensation for nonprofit organizations.

GuideStar was founded as a nonprofit organization in 1994 with the proposition that donor decision-making and nonprofit practices could be improved by providing more information on the nonprofit sector. Today, GuideStar is the largest source of information on the 1.5 million nonprofit organizations operating in the United States, and we are nationally recognized for our work. We have a staff of nearly 50 people that gathers data from the IRS and other sources, processes this data in a complicated and complex operation, delivers this information to users via the Internet and provides a variety of products and services so that people can utilize this data. Over 20,000 people visit our web site every day, from every state in the nation, and we had nearly 8 million web site visits during 2005. Our users include nonprofit organizations, individual donors, most levels of government, foundations, and many service providers to the nonprofit sector.

Operating an organization serving the entire United States from Williamsburg is difficult and challenging. Many have urged us to move our operations to bigger cities, such as Washington or New York where most nonprofit organizations are located, but we are proud of our Williamsburg heritage and promote it prominently. Over one-third of our staff is engaged in highly sophisticated technical operations and we compete with much larger and mostly commercial companies for hires. Other staff have obligations for selling and marketing our service offerings, where we again must compete with commercial operations. Our unusual location for a national organization, coupled with our highly technical and sophisticated operations, drive up our operational costs, including salaries.

Our compensation practices are guided by a compensation committee of our board of directors. They in turn are guided by IRS guidelines concerning compensation practices for nonprofit organizations. More information on these guidelines can be found at: <http://www.irs.gov/charities/index.html>. The IRS guidelines state that nonprofit organizations should provide *reasonable compensation* – namely the amount ordinarily paid for like services, by like enterprises (whether taxable or tax-exempt), under like circumstances. It suggests these steps for good compensation governance practices:

1. Establishment of appropriate procedures to determine compensation. In GuideStar's case, all compensation is established through procedures established by the board of directors and executed by the President and CEO.
2. Board evaluation and approval of compensation. GuideStar hired the nationally recognized compensation consultant, Quatt Associates of Washington D.C., to review comparable salaries for national organizations similar to GuideStar and recommended to our board a compensation plan. More information on the work of Quatt Associates can be found on their web site: <http://www.quatt.com/services.html>.
3. Board oversight. Finally, the Board of Directors is expected to maintain appropriate oversight of compensation. GuideStar's board does this through its compensation and audit committees and through reports by the President to the board.

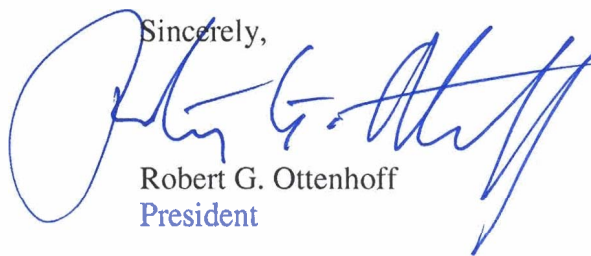
We would be pleased to provide whatever additional information might be helpful to you in understanding our compensation system. We do believe that the employees of GuideStar, as a result of this system, are compensated fairly, reasonably and on a comparable basis with similar organizations.

In your May 10 letter to me, you also indicated that you could not find any benefits to the citizens of James City County that would be enhanced by an exemption from County property taxes. Although the application form did not ask for such information, we do believe that such benefits are extensive. For example, the employment opportunities and tax base of the County are enhanced by having our operations in the County, because many of our employees live in the area and patronize County businesses. Our presence in the County also brings favorable light on the County as a place to do business, and as noted above, we actively promote our Williamsburg heritage.

In conclusion, because of GuideStar's national prominence, the good will and employment we bring to Williamsburg, and our adherence to compensation guidelines established by the IRS, we respectfully request that you reconsider our application and issue a recommendation that an exemption from personal property tax would be appropriate for GuideStar.

Thank you for your consideration. If you have any questions or need additional information, please contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert G. Ottenhoff". The signature is stylized with a large initial "R" and "O".

Robert G. Ottenhoff
President

cc: N. Pendleton Rogers, Esquire