

2019 AFA CONVENTION WHITE PAPER ON PROPOSED AFA REORGANIZATION

SITUATION: Delegates to AFA's 2018 National Convention were briefed, as part of the Chairman's Report, on Board actions to further refine AFA and its affiliates (AFA Veterans Benefit Association (AFAVBA) and the Air Force Memorial Foundation (AFMF)) organizational relationships. In summary these organization changes are (per Board resolutions approved 14 Sept 2018):

- 1) Creation of a new IRS 501(c)(2) named the AFA Title Holding Company (AFATHC) for the exclusive purpose of holding title to the AFA Building with profits going to AFA.
- 2) Dissolution of the IRS 501(c)(19) AFAVBA while transferring the member benefits programs to the IRS 501(c)(3) AFA and transferring the AFA Building to the AFATHC.
- 3) Dissolution of the AF Memorial Foundation (AFMF) and transfer of all remaining funds to the IRS 501(c)(3) AFA with the funds to be held in a restricted account for appropriate use as required by the legal restrictions that were placed on the funds by the donors to the AF Memorial.

AFA has created the AFATHC 501(c)(2) and has applied for and is awaiting IRS approval of the tax exemption for the AFATHC 501(c)(2) – expected in 2020. Staff are working with a lawyer and tax accountant to complete the other steps. These changes will require administrative changes to the AFA Constitution and the AFA Operations and Procedures Manual (OPM) to reflect the refined organization. It's expected that the 2020 AFA Convention will review the AFA Constitution and OPM revisions for governance approval/ratification as appropriate. The AFAVBA Constitution will be amended to reflect dissolution (by 2/3 vote of the Board).

ACTION: The Board recommends and requests the 2019 AFA Convention delegates approve of the organization changes outlined above and in anticipation of the merger of the AFAVBA and the AFATHC including the subsequent dissolution of the AFAVBA and the dissolution of the AFMF in preparation for associated governance document revision.

DISCUSSION on item 1 & 2 above: Business conditions in the insurance industry and AFA have changed significantly since the *afa21* reorganization. With the proliferation of inexpensive term insurance through the internet, profit margins have diminished. Additionally, AFA's membership has continued to 'mature', and this older cohort is not as profitable as a group. Thus, AFA insurance revenue has declined steadily and AFA insurance transitioned from an actively managed business to a 'royalty' program (i.e., AFA provided member lists to the provider who markets and manages the insurance for an agreed royalty). Thus the original rationale for maintaining the (c)(19) has seriously weakened. Additionally, the influx of civilian members from CyberPatriot and other programs could put AFA VBA in violation of the (c)(19) veteran membership criteria over time.

Considering these factors, the AFA Board of Directors believed it was advisable to undertake an evaluation of its organizational structure relative to AFA and AFA VBA. While the member benefit programs provide no downside to the (c)(3) AFA, the AFA building brings some risk to AFA's charitable operations due to risk of catastrophic property damage or legal liability from a suit by a tenant or visitor. Thus, the AFA Board of Directors has determined that it is advisable to reorganize its corporate structure by separating the provision of veterans' benefits from ownership of the AFA Building and merging the AFA VBA into a new tax-exempt organization formed in accordance with the provisions of Code section 501(c)(2) for the exclusive purpose of holding title to the AFA Building, collecting the income therefrom and remitting the entire amount thereof, less expenses, to the AFA.

To accomplish this reorganization, the necessary documentation (Articles of Incorporation of AFA Title Holding Corporation (the "Title Holding Corporation") were filed and approved by the District of Columbia Department of Consumer and Regulatory Affairs on February 19, 2019. Additionally, the Board authorized and directed staff to make appropriate arrangements and prepare, execute, adopt, and or file such applications, registrations, forms, certificates, reports, documents or other instruments as may be required to be filed with the Internal Revenue Service or in any district, jurisdiction, state, territory, or dependency of the United States, or foreign country in which said officers shall find it necessary or expedient to file to effectuate the reorganization and merger described herein.

DISCUSSION on item 3 above: The USAF (since 2017) now owns and operates the AF Memorial and the purpose of the AF Memorial Foundation no longer exists. The remaining funds are transferred to the AFA and will be provided to the USAF for maintenance, care, and operation of the Memorial as AFA deems necessary and consistent with donor intent. AFA's governing documents will be revised to reflect dissolution of the AFMF.

BACKGROUND on afa21 organization development: In 2004, the AFA Board chartered a team of volunteer leaders to study and recommend desired changes to AFA structure. The *afa21* Task Force reported their recommendations to the 2005 National Convention, the most significant of which called for the main business effort of AFA to be conducted as an Internal Revenue Code section 501(c)(3) charitable organization whose charitable and educational purposes included furthering and supporting the interests of current, former and future members of the Air Force and their families. Prior to *afa21*, AFA was organized and operated as an IRS 501(c)(19) veterans organization requiring the majority of members to be veterans or their descendants. Additionally, donations to AFA were not tax deductible for the donor. The most significant arguments for the changing to the (c)(3) status were the deductibility of donations and the absence of percentage limitations of non-veteran members that could effectively prohibit civilian members of the Total Force joining the association as full members.

On the advice of the AFA attorneys, the recommended approach was to transfer the majority of AFA activities (e.g., membership, magazine, and exhibitions) to the existing Aerospace Education Foundation (AEF) that was created in 1955 and could accept tax deductible donations. The restructured AEF would be renamed "Air Force Association" as the more recognizable and descriptive brand.

The former AFA 501(c)(19) organization was renamed the AFA VBA with the residual functions of member benefits such as insurance and title/operation of the AFA Doolittle building. The retention of insurance under the 501(c)(19) was important because AFA was actively managing AFA Insurance and participating in its profits. IRS 501(c)(19) organizations are permitted to participate in the insurance business without being liable for Unrelated Business Income Tax (UBIT) while (c)(3) and most other nonprofits are not.

The delegates at the 2004 convention approved the *afa21* approach with the understanding that AFA would operate under a transition constitution approved by the Board only until approval for the realignment of business lines was approved by IRS and new constitutions/bylaws for the renamed/realigned organizations could be approved by the Board and Delegates. The IRS approval and Delegate ratification of the new structure was approved by Delegates of the 2005 convention.