



Chart your future business
model with new insights
and connections

How Do You Know Whether It's Time? A Completely Confidential Conversation on Nonprofit Dissolution

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Nonprofit GPS

A field-driven collaboration led by:

Nonprofit Financial Commons, BDO Nonprofit & Grantmaker Advisory, and Philanthropy New York —
with tools and frameworks from StrongNonprofits.org and insight from regional networks across the nation.



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Being a good fiduciary

requires absolute loyalty to those in whose name you do business, even — and especially — in sunseting.



The restlessness and porousness of nonprofit boundaries



M.C. Escher, *Sphere Spirals*, woodcut in grey, black, yellow and pink, printed from four blocks, October 1958

When you're questioning whether you can go on



There is some purely financial figuring to do, but though a crisis may be precipitated by financial circumstances, gauging viability should not end there.

Boards may vote to cease operations only to have stakeholders object strongly enough to cause an alternate path to be found.

Evaluate your non-financial capital STAT

Women's Transitional Care Services emerged from a wholly volunteer grassroots effort to become in 1976 the first domestic violence shelter in Kansas.

In 1981 it was defunded when President Reagan defunded all of LEAA and most of the domestic violence shelters along with it. WTCS's board was split — some felt the responsible thing to do was to close. The rest of the board excused those members and embarked on a grassroots campaign to transition the funding to local sources.

The campaign succeeded beyond its goals, and the organization continues to serve three counties even more than 40 years later as Willow Domestic Violence Center.



Social capital can become financial capital

Social capital is embedded in nonprofit purpose built through common cause, intention, trust, and a history of acting in stakeholders' names.

Volunteers, donations, and collaborative activity are expressions of this capital. Most importantly, nonprofits build trust bonds over time.

When financial crisis arrives, that social capital can become highly valuable and can sometimes be converted into financial resources.



Before you get ready to close, ask yourselves:

- Who am I in common cause with?
- How intact is our reputation?
- Can and will they help us find another path and how?
- What can they bring as resources, tools, and leverage?
- How much time and will do we have to choose continued existence?



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Closure seldom has a single cause

In 16 in-depth case studies of nonprofits over ten years old that closed between 2010 and 2019, 15 of 16 named two or more contributing causes. The pattern falls into four recurring categories.

Strategic management

The most common driver: an executive director's exit without a stable transition, founder syndrome, or a core program that stops covering its own costs.

Resources

Reliance on one donor, grant, or government source, and a widening gap between what programs cost and what revenue can sustain, e.g., a lost federal or state contract, an ended multi-year grant.

Legitimacy

Internal conflict and declining commitment push out board members, staff, and clients, eroding the trust an organization runs on, e.g., a public scandal, a wave of board or staff resignations, a sharp drop in volunteers.

Ecological & structural

Small scale, a more crowded niche, and external shocks — like the 2008 recession — that expose a model already under strain, e.g., a new provider serving the same clients, a policy change that shrinks the funding stream.

Signals requiring immediate attention

Leadership transition without a succession plan

A long-time executive director leaves, and the organization can't stabilize around new or remaining leadership.

Revenue concentrated in one source

A single donor, grant, or government contract carries most of the budget, with little room if it shrinks.

Rising internal conflict or boards/staff turnover

Unresolved conflict pushes out committed people and weakens follow-through on the mission.

Signals requiring immediate attention

Program costs outpacing available resources

Costs creep past what fundraising can sustain, forcing cutbacks that can end the core program.

Declining net assets

External shocks hitting an already- strained model

A recession, a policy shift, or a more crowded funding landscape exposes vulnerabilities that were already there.

Failure of internal systems

Weak systems to keep track of the money

Assessing the (non)financial capital that you have at hand

- Track record of community participation
- Volunteers
- Reputation, influence, and community recognition
- Relationships with organizational partners
- Proven and recognized fidelity to constituents
- Reliability
- Intellectual property
- In-kind resources



Q & A



Mark Hager
NFC Moderator



Interview:



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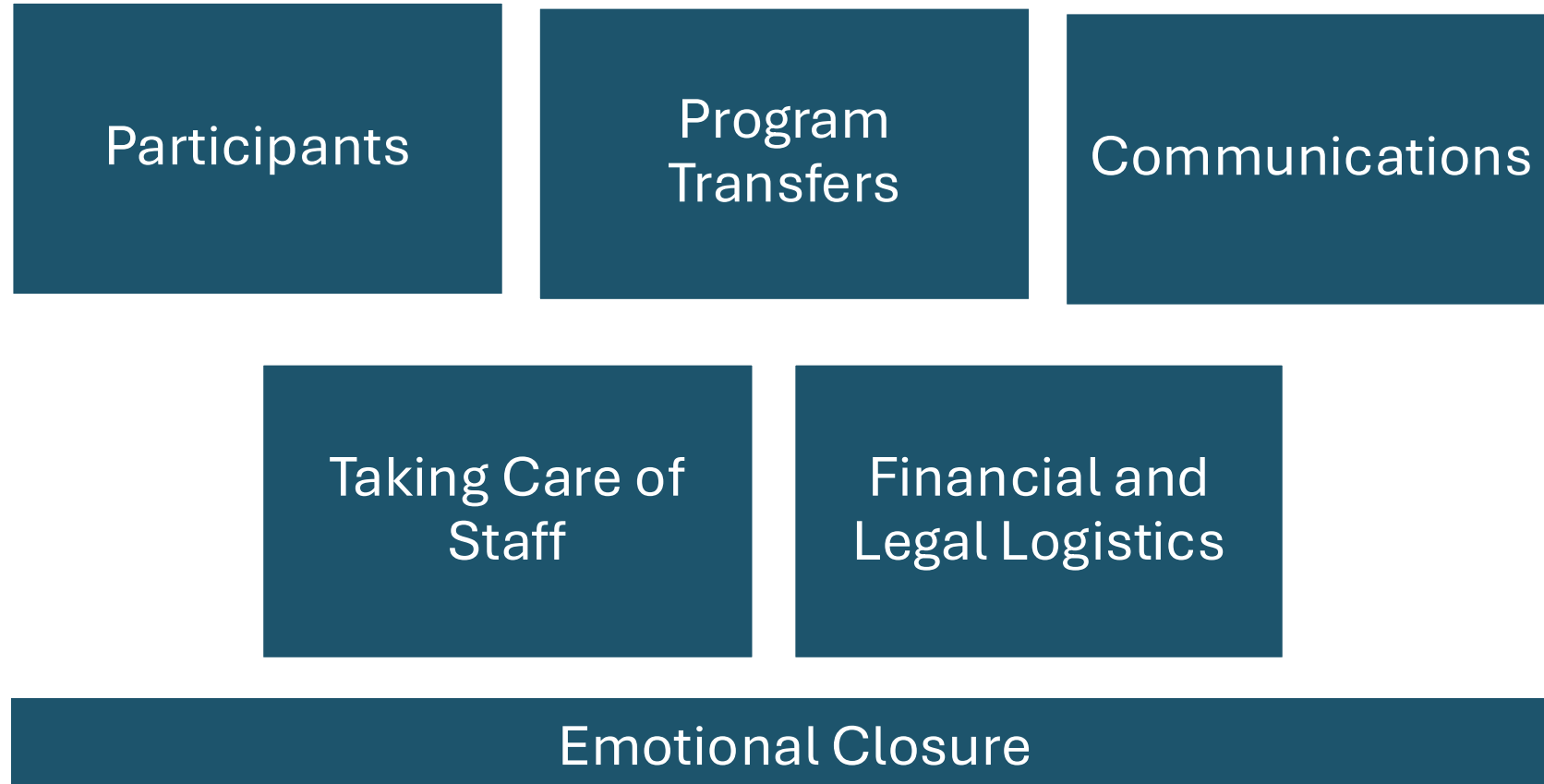
The Opportunity Agenda



How Dissolving Your Nonprofit Can Strengthen the Sector

<https://nonprofitquarterly.org/how-dissolving-your-nonprofit-can-strengthen-the-sector/>

Strategic Sunsetting: Elements



Key Participants

- Identify key **transition leadership**
- Consult with **outside experts** where needed:
 - Attorneys
 - Accountants
 - Communications consultants
 - Strategy consultants
- Involve the **Board** throughout the process



Program Transfers

- **Identify partners** that will honor the program's intent
- Get clear on **true program costs** including allocated shared costs and overhead
- Consider the transfer or **program-specific funding, assets, and equipment**
- Identify any **trademark registrations** and **other intellectual property** that needs to be legally transferred
- If there are donors associated with the program, assist in **connecting** them to the recipient organization



Communications: Board and Staff

- Be **transparent** about the strategic, operational, and financial situation and the ways in which sunsetting addresses those issues
- **Name and honor successes** of the organization and those who committed their energy to it
- When possible, help guide board members, staff members, and volunteers to **new places** to transfer their energy



Communications: Funders and Stakeholders

- Make a plan for the **sequence and roles** for outreach
- **Be the first** to tell your donors about the sunset
- Carefully plan **communication with program participants** — for some kinds of services, there are legal or contractual requirements for this notice
- Be **proactive about publicity** and choose who will speak to the press
- Convey **gratitude** and strive for a **balanced tone**
- **Lift up other organizations** doing work in the field and offer next steps for your donors and constituents to connect to these organizations and services



Taking Care of Staff

- Follow the same process as you would if you were **ending employment** for any other reason
 - Will vary by state
 - Should also align with your own internal HR policies
- Consider offering **severance or bonuses** for staff to stay on through the conclusion of the work
- Provide your staff with the **references** they will need to find their next step
- Make space in conversations for **concerns and ideas** from staff



Financial & Legal Logistics

Key Considerations

Financial Logistics

- Inventory assets
- Review contracts
- Notify creditors
- Make a plan to pay off current debts and terminate future/recurring liabilities
- Close all accounts
- Identify which insurance coverage will need to continue
- Close out any reporting requirements from funders





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Legal and regulatory issues

- Dissolution a highly regulated process
- Specific requirements vary by state
 - Role of office of Secretary of State
 - Corporate record, end of corporate existence
 - Simply filing Articles of Dissolution with the Secretary of State is often insufficient for a charitable corporation.
 - Role of Attorney General/charities regulator
 - Charities registration
 - Supervision of disposition of charitable assets
- IRS filings for employment tax and information return termination are specific and a compliance priority
- Records retention required for up to four years

Wrapping up with paperwork — or without it

Closure itself isn't always a managed process.

Formal closure

Files Articles of Dissolution, marks the final return on Form 990, and winds down deliberately.

Inactive status

Keep the corporate status but get rid of most of the activities

Informal closure

Stops filing with the IRS and the state; tax-exempt status lapses with no formal wind-down.

Typical order for dissolving a charitable nonprofit

Order	Step	Typical filing/document	Filed with / handled by
1	Review governing documents and finances	Articles, bylaws, dissolution clause, grants, donor restrictions, contracts, debts	Internal
2	Board approves dissolution	Board resolution and Plan of Dissolution	Corporate records
3	Notify state Attorney General/charities regulator	Notice of Intent to Dissolve and proposed asset distribution	State Attorney General
4	File preliminary dissolution notice, if required	Notice/Statement of Intent to Dissolve	Secretary of State
5	Identify and notify creditors	Direct notice; sometimes published notice	Creditors and claimants
6	Wind up operations	Final payroll, contracts, leases, grants, receivables, sale of property, etc.	Various
7	Deal with donor-restricted assets	Transfer agreements; donor approval; sometimes AG/court petition	Recipient charity, AG or court
8	Pay or provide for creditors	Payments, settlement agreements, reserves	Creditors

Typical order for dissolving a charitable nonprofit, cont.

Order	Step	Typical filing/document	Filed with / handled by
9	Distribute remaining charitable assets	Asset-transfer agreements; board documentation	Other qualified charity/government
10	Complete state corporation dissolution	Articles/Certificate of Dissolution	Secretary of State
11	Close charitable registration	Final report, withdrawal/termination filing	Attorney General/charities bureau
12	File final IRS return	Final Form 990/990-EZ + Schedule N; 990-N or 990-PF as applicable	IRS
13	Complete employee/tax filings	Final Forms 941/944, 940 if applicable; W-2/W-3; 1099s	IRS/SSA/state agencies
14	Close remaining state/local accounts	Sales tax, unemployment, licenses, permits, fundraising registrations	State/local agencies
15	Preserve records	Corporate, tax, payroll, donor and asset-transfer records	Organization/custodian

Charitable nonprofit dissolution — three particularly important legal issues

1. Creditors come before the unrestricted charitable remainder

A nonprofit cannot decide to give all its cash and property to another charity and leave its creditors unpaid. State nonprofit corporation statutes generally require debts, liabilities and claims to be paid or adequately provided for during the wind-up.

2. Charitable assets do not become the property of the board, founders or members

The federal 501(c)(3) rules require charitable assets to remain permanently dedicated to exempt purposes. Upon dissolution, the residual assets generally must be distributed for a 501(c)(3) exempt purpose or to federal, state or local government for a public purpose

3. Restricted gifts are different from ordinary unrestricted assets

If complying with the restriction has become impossible or impracticable, modification of the restriction may require donor consent, Attorney General involvement, or a court proceeding under applicable state law.



Emotional Closure

- Make space for **grief** throughout the process
- Allow for some **rest and reflection**
- **Celebrate** your organization's achievements
 - Final event
 - Collection of stories
 - Physical memorial
 - An open letter to the public published in the local newspaper



Q & A



Mark Hager
NFC Moderator



Confidential Helpline Support

Today's presentation may leave you with practical questions of implementation and strategy. We are offering free confidential virtual consultations with finance consultants to help in your navigation of first steps. We can help address questions like:

- How do I estimate the length of time I have to **implement a redesign** given current resources?
- How do I ensure we have the right focus on **financial strategy**?
- What is a good approach to starting a **program portfolio analysis**?
- How do we become more efficient with our **back-office operations**?

Helpline



Nonprofit GPS Helpline

The Nonprofit GPS Helpline provides U.S.-based nonprofits with timely and targeted support related to business model risks. For example, consultants could provide thought leadership on high-level questions, direct you to resources or providers, or provide focused technical guidance. The Helpline does not provide access to a consultant for a deep or extended engagement.

Organizations can seek advice from financial and management consultants in areas such as but not limited to:

- Financial Planning
- Business Model Recalibration and Right-sizing
- Strategic Transitions, including Mergers, Collaborations, Spin-offs, and Closures

Please complete the inquiry form below. A consultant will respond to your inquiry within two business days. Nonprofit GPS will not sell or transfer the information you provide. We may aggregate anonymized data for the purposes of evaluation and improvement of our services.

Contact Name *

Contact Role *

Contact Email Address *

Organization Name *

Have you or your organization previously submitted an inquiry through the NPGPS Helpline? *

☐ Yes ☐ No ☐ Not sure

Organization Type *

Select all that apply. If you select "Other," please describe in the Notes box at the bottom of the form.

☐ c131 ☐ c141 ☐ c151 ☐ Fiscally sponsored project

☐ Other

Organization Location *

If you select "Outside of the U.S.," please describe in the Notes box at the bottom of the form.

Organization Mission Area *

If you select "Other," please describe in the Notes box at the bottom of the form.



Financial Management Resources

This library of free tools and resources was created in collaboration with the Wallace Foundation to help organizations become “fiscally fit.”

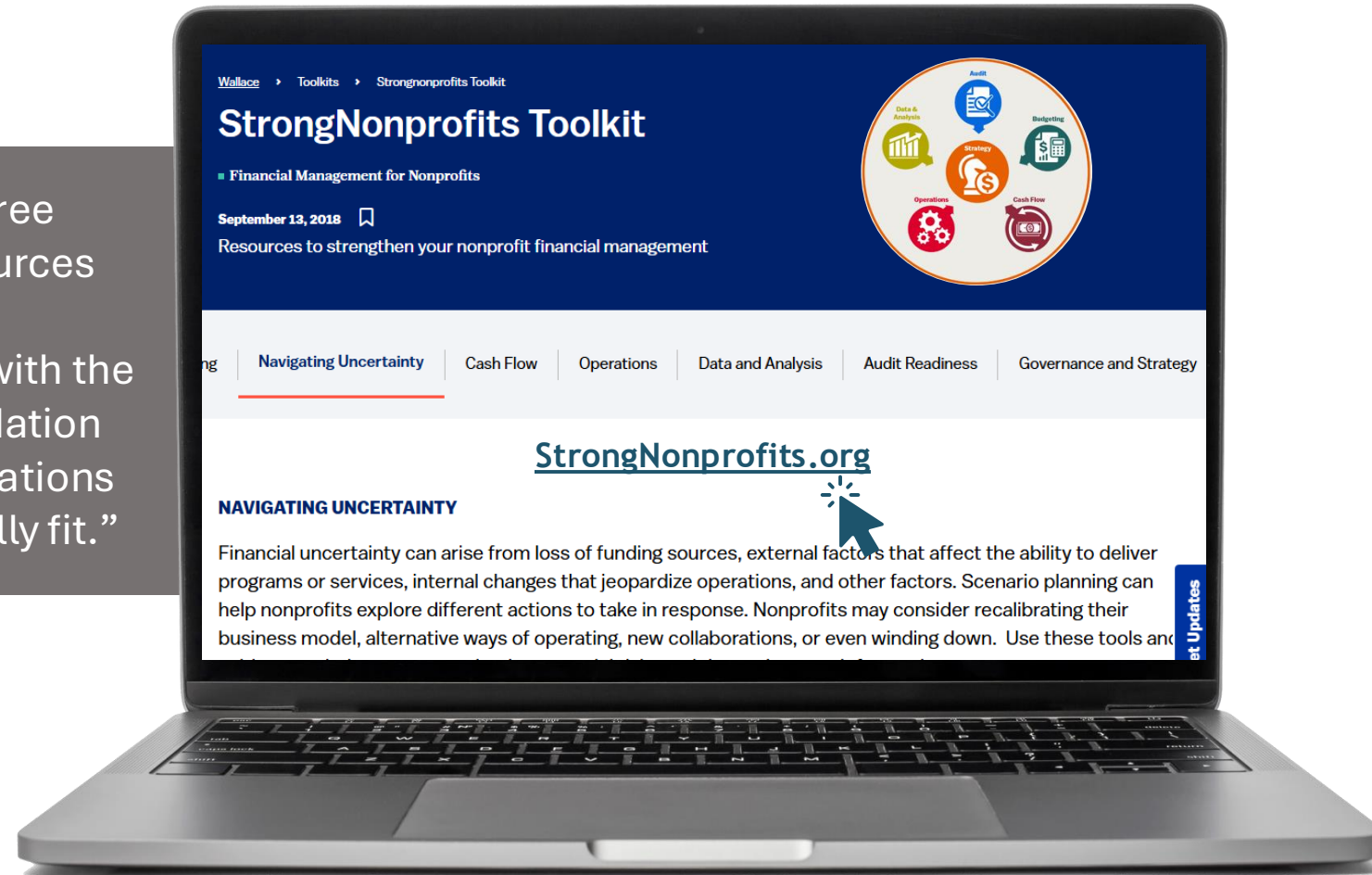




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