

Strategic Sunsetting



Sunsetting can be a normal, mission-focused part of an organization's life cycle and occurs when the work an organization set out to do has been done, capacity has been reached, and energy and resources are needed elsewhere.

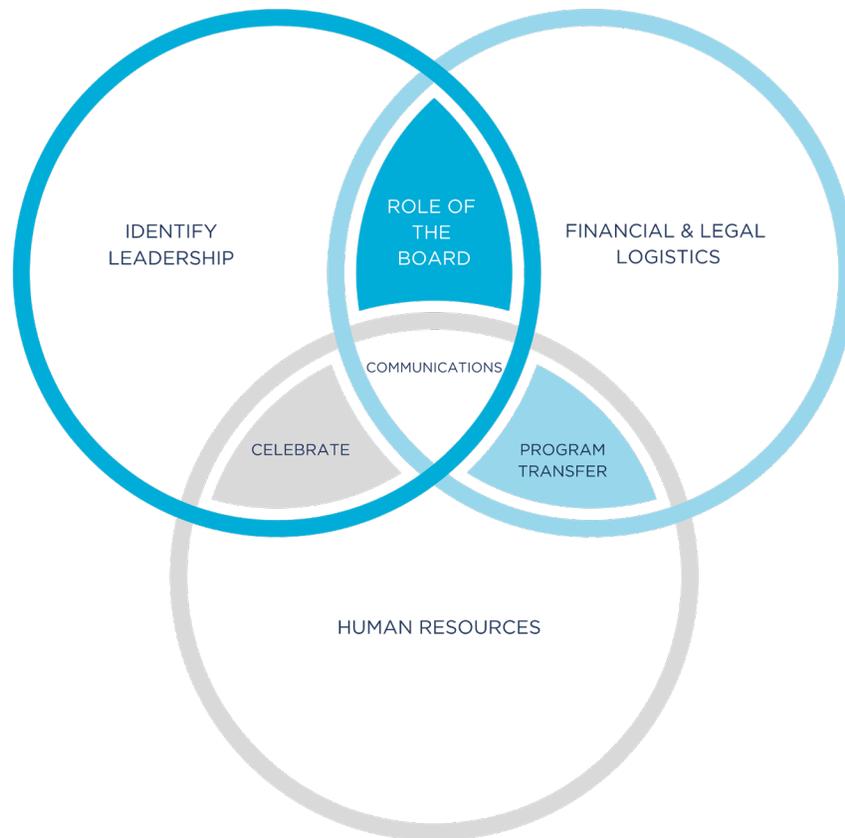
Sunsetting is a strategic decision that requires transparency, honesty, and planning. The often emotionally charged task of bringing sunsetting into strategic conversations can be difficult for organizational leadership to confront.

With that in mind, how can you and your organization prepare to confront the possibility of closure with a clear mind and intentional, empathetic decision making?

Why Sunset?

There are many reasons an organization might consider sunsetting, including:

- Accomplished mission
- Changes in external environment (demographics of community served, change in need for services, other organizations better suited for the work)
- Funding challenges, financial instability, or structural deficits
- Departure of a key leader or founder who is the reason the organization exists
- A combination of some or all of the above



STRATEGIC SUNSETTING

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You may be considering a sunset because your mission has been fulfilled, and you feel closing would allow for resources and energy to be redistributed elsewhere to better serve your community. This was the case for Project 515, a nonprofit that spearheaded the push for marriage equality in the state of Minnesota, when marriage equality became legalized officially in 2013. Project 515 closed shortly after in order to clear the way for other organizations continuing the work for LGBTQ rights in the state. Project 515 co-founder and board chair at the time, John Larsen, said, “I remember sitting in the attic of our house and saying, ‘we want to go out of business.’” Founding board member Susan Cogger-Williams said in their final report, “To have been able to accomplish our ambitious mission and sunset our organization is such a privilege and honor. You can’t argue with success!”

You may also be considering sunsetting because something in your business model is not working anymore. For example, in 2018, Patrick’s Cabaret closed after realizing their cash flow projections indicated they could not financially sustain the work they did. Scott Artley, former executive artistic director, [wrote about their sunset](#), describing the decision a painful one for him personally, but noting “This is... about disrupting the mythology that has us avoid even confronting the possibility of closure because we conflate personal failure with admitting that an operation is unsustainable.”

No matter the reason, deciding to sunset is a strategic decision that requires strategic thinking both during the decision itself and throughout its execution. It is easy to get lost in the checklist of legal requirements and financial to-dos, but being intentional and methodical about the process throughout can help to ensure your organization can have a celebratory farewell even if it’s bittersweet for the reasons listed above.

It is also important to acknowledge that sunsetting takes time. It is at least a six-month process, but depending on the size of your organization, it’s likely the process will be longer. Approaching this time intentionally will allow for the endurance needed to see the process through to the end.

What questions should you ask of yourself and your organization when considering a sunset?

- Does the mission of our organization still address a relevant issue? Are we effectively meeting the need our community is asking from us?
- Are we currently operating in a way that honors our mission and our community?
- What role could sunsetting play in accomplishing our mission?
- What would the community lose if we are not here? Are there other organizations doing this work that can fill that need?
- Are there any programs that are succeeding that would continue to serve your community if continued by another organization? Who could be successors to continue this work? (See more on program transfers below.)
- Are we the right people doing this work at this time? Does sunsetting create more space and resources in the sector for other voices and organizations better suited for the work?
- Are the other options available to us conducive to sustainable success for the organization and those who support it, or are they short-term solutions that kick the can down the road? Will these options create more stressors that will strain employee capacity and ability to fulfill the mission?

After reflecting on these questions, you may decide sunsetting is not the route you and your organization need to take – that there’s another way to restructure or reimagine your organization.

However, if your leadership does decide sunsetting is the best way to honor your organization’s mission and the community you serve, trust that your team made the best decision you could with the information you had and the expertise you bring.

Sunsetting or Dissolution

So now what? You've made the decision to dissolve, but what logistical steps and strategic considerations are required to carry you to the finish line? Here we offer a path through as we see it, but know this process is not linear. You may jump from section to section as you respond and adapt to the needs of your team and your community during the closure.

Identify Leadership

Because this is a long process, it is important to identify key transition leadership early on. This task force or special committee can be a mix of staff members and board leadership, and once identified, this team will need to invest a significant amount of time and attention to winding the organization down. Sunsetting is a heavy lift for leadership, but there are several decisions big and small that must be made, so it is important to bring people with different skillsets and perspectives to this group. It might also be worth considering giving this group a formal container (ex: committee, task force), to make space for the level of commitment and capacity this process will require.

Role of the Board

The board is an integral part of the sunsetting process, both legally and strategically. They must be involved in early discussions and throughout the dissolution as a part of the transition team. Board members will also go through their own process of transitioning and letting go, including the mourning and celebration that comes along with difficult decisions. Take pauses throughout the sunset to check-in and make space for that processing.

- The board is core to the strategic thinking and decision making around sunsetting. Sunsetting takes time. Board members should plan to be engaged throughout to provide guidance and support.
- Board must vote to dissolve the organization. This includes approving a "plan of dissolution". This vote must be documented in meeting minutes.

- Plan of dissolution is a written document describing a nonprofit's plans for distribution of remaining assets and how it will address remaining liabilities.
- Board will submit necessary paperwork (see below).
- The board chair and treasurer will have ongoing IRS reporting responsibilities for several years after the formal shut down.

Outside Advisors

Though there are some clear steps when it comes to sunsetting, we acknowledge each organization is unique in its business model, community served, funding streams, staff needs, and strategic considerations. We highly recommend relying on additional expertise when and if you need it to guide and support you through the sunsetting process. This may include an accountant, a nonprofit attorney, and communications and/or strategy consultants. Some of these skillsets may already exist on your board, but having an outside perspective to keep the process moving and identify areas that need more attention can be incredibly useful.

Program Transfer

If you have identified programs you'd like to see continue with a new home organization, there are a few key things to consider in a program transfer.

Strategic Considerations

Identify partners that will honor the program's intent. When VSA Arts sunsetted, they transferred many of their programs to organizations with similar missions. Craig Dunn, VSA's former executive director, said, "We obviously can't specify how they're going to implement the programs going forward, but we want to be sure the expectations are clear, that there's a formal commitment to the program intent."

Get a clear picture of true program costs and the impact of allocations and overhead.

This information will be key when looking for potential partners to take on the program.

Financial Considerations

When transferring programs, you must also consider the transfer of program-specific funding, assets and/or equipment required to continue the work. The program itself might have an inherent value, especially if it is a successful one.

Identify any trademark registrations, other intellectual property or intangible assets that need to be legally transferred.

If there are individual and/or institutional donors associated with this specific program, assist in connecting these donors to the new organization. The donor can decide if they want to stick with the program or not but be sure to communicate that you trust the commitment and capacity of the organization the program is being transferred to.

Communications

Communicating with your board and staff

- Be transparent about the strategic, operational, and financial situation of the organization and the ways in which sunsetting addresses those issues.
- Continue to have honest and intentional conversations with staff and board throughout the sunsetting process.
- Be sure to name and honor successes of the organization and those who committed their energy to it. Find ways throughout the process to celebrate those successes and the legacy of your work.
- When possible, help guide board members, staff members, and volunteers to new places to transfer their energy once the organization is officially dissolved.

Communicating with funders and stakeholders

- You should be the first to tell your donors about the sunset, rather than them finding out with the rest of the community. Make a plan for the sequence and roles for outreach. Frequently, organizations communicate first to major financial partners with a personal communication (leadership circles, major donors, and funders), then to your broader donor base, supporters, and finally to the general public.
- Communicating with clients needs attention and a careful plan based on the type of relationship and connection. For some kinds of services there are legal or contractual requirements for this notice.
- Convey gratitude – your donors supported you through it all. Include a summation of their impact, lift-up what they achieved with you, and celebrate the legacy of the organization they fostered. Strive for a balanced tone focused on positive impact.
- Point to other organizations that are doing great work in the field where donors can redirect their energy and resources. If capacity allows, facilitate those connections so people feel they are in good hands.

Communicating with your community

- Identify agreed-upon talking points with your board to balance confidentiality and transparency.
- A balanced tone is critical. Honor the legacy of your work publicly and share ways in which the community can celebrate that work with you.
- If there are other organizations serving your community well, use this opportunity to hold their work up. When applicable, offer next steps for the constituents you serve to connect to these services.

Human Resources

When sunsetting, your organization is also eliminating jobs and ending employment of a staff who have committed their time and energy to the mission. Each staff member will be going through their own sunsetting process as they begin to identify what is next for them. It is critical to be transparent and intentional with communication and next steps.

You must also follow the same process as you would if you were ending employment for any other reason. This may vary by state. (You can find more information for the state of Minnesota [here](#).) This process will include providing a W-2, paying out accrued wages, and paying out benefits. This process may also vary based on your HR policies – it is critical that you refer to and follow your own established rules and practices. In some cases, offering severance or bonuses for staff to stay on through the conclusion of the work can be an important strategy to leverage as well to ensure you have the staff needed to close down and that people feel supported until the end. This is a place where outside legal advice is helpful.

It can be easy to get lost in the technical side of any major transition but remember that at its core a sunset is impacting people. Provide your staff with the references they will need to find their next step and make connections when able. Plan to make space in conversations for concerns and ideas from staff, so they feel heard and supported in the transition. Celebrate the work you all have accomplished together. Allow the same space and grace to yourself as a leader in this transition.

Financial and Legal Logistics

While there are some clear required legal steps when sunsetting, we recommend seeking legal consultation to ensure the steps reflect what your specific organization needs.

Financial

- **Inventory assets:** Identify what needs to be sold or transferred. Once the 45-day waiting

period with the Attorney General's office has past, you may begin selling, transferring, or disposing of assets.

- » By law, sunsetting organizations must distribute remaining assets to other tax-exempt organizations or to the government, not individuals of any kind. Refer to your own articles of incorporation here, as some are very specific to the organization.
- » Identify any trademark registrations or other intangible assets that need to be transferred.
- » Ensure transfers are compliant with federal and state law, your organization's bylaws, and the plan of dissolution.
- » Some kinds of assets will take longer to sell or transfer, such as buildings or specialized equipment. This all belongs in the sunsetting plan and schedule.
- » If you have any specialized assets, you may require some special considerations or advice (for example: historical buildings, a collection, etc.).
- » Document all transfers and sales for reporting.
- **Review contracts:** Review ongoing contracts to understand logistics, process, and cost of terminating.
- **Notify creditors:** Directly notify all known creditors that your nonprofit is going out of business. Once they are notified, they have 90 days to submit any claims against your organization.
- **Make plan to pay off current debts and terminate future/recurring liabilities:**
 - » What can be covered by existing cash? What needs to be sold to free up cash to cover debts?
 - » If you cannot satisfy debts, make a plan to contact vendors and creditors to negotiate payment. If necessary, bankruptcy is an option.

- **Close all accounts:** This may include bank accounts, web platforms, online giving portals, apps, etc.
- **Insurance:** Stay in touch with your insurance agent/broker to identify what coverage you have and what coverage needs to continue. Some policies will need to be maintained, and paid for, to cover any claims that may come up after closure.
- **Other Obligations**
 - » Refer to any outstanding donor agreements and obligations to ensure they have been met. This may include rooms, buildings, or programs named after corporate sponsors or major donors.
 - » Close out any reporting commitments from funders, granters, or other stakeholders.

When distribution is complete, financial statements should reflect no remaining liabilities.

Legal

- It's worth considering, for ease of process, that the Board formally dissolve before the end of the current fiscal year, as it streamlines the filing process detailed below.
- File 990 including [Schedule N](#) with the IRS within 4 months and 15 days after the last day of your organization's most recently completed fiscal year.
- File Notice of Intent to Dissolve with the Secretary of State of Minnesota. Note: Once the intent to dissolve is submitted, all programming must stop. All work and resources left after submitting must be working toward the closure.
- File terminating report with [Charities Division of the Minnesota Attorney General's office](#), including a plan of distribution of remaining assets. The Attorney General's Office has 45 days to respond to the notice, or they can request an additional 30 days.
- Once assets are transferred, the Board must provide a list of how the assets were distributed to the Attorney General's office.

- Finally, file [Articles of Dissolution](#) with the Secretary of State when assets are distributed and closure is complete.
- We recommend looking at the [Guide for the Voluntary Dissolution of Minnesota Non-profit Corporations](#) created by our friends at [LegalCORPS](#) for additional support.

Other considerations

- Where do we store paperwork and legal documents?
 - » First identify what needs to be kept. [Council of Nonprofits Document Retention Policy](#) is a great place to start. Some documents have very specific legal commitments, such as confidential client, student, or legal records, and it is important to find out what those are before disposing of or making a storage plan.
 - » For documents you can dispose of, you can find local shredding services near you.
- Where can we store historical documents and assets?
 - » Take time to document what your nonprofit has done and any knowledge gained in its lifetime. This can be given to a library or historical society. You can learn more about what the [Minnesota Historical Society accepts here](#).
- Where can we sell equipment and furniture?
 - » If you're in the Twin Cities, [Furnish Office and Home](#) accepts donations of gently used or new office furniture.

Celebrate!

As we've mentioned, sunseting can take an emotional toll. Making space for grief throughout your process while celebrating your organization's achievements will allow for a greater sense of closure.

Whether it culminates in a final event, a collection of stories, a physical memorial, or something else entirely – create a way honor the work and its legacy.

For example, Patrick’s Cabaret threw a FUNeral, a final performance celebrating Patrick’s Cabaret’s legacy. Artley described it as:

...a final chance to say goodbye in a flurry of color, glitter, humor, and togetherness. Featuring performances and a dance party, the event was both a parody of funereal traditions and a very real ritual to help the vast community of artists and audiences mourn, grieve, and ultimately accept the finality of an organization that had been an artistic home to many hundreds of performers over its three-decade lifespan.

Whatever way you choose to celebrate, we hope you center the incredible work of your team and the legacy that work will leave in your community. Allow space for some rest and reflection. Honor the bravery and strategic smarts it took to get here. Then once this chapter is closed, and when you’re ready, you can start imagining what’s next.

Resources

- LegalCORPS: <https://legalcorps.org/>
 - » [Guide for the Voluntary Dissolution of Minnesota Nonprofit Corporations](#)
- [Council of Nonprofits: Dissolving a Nonprofit Corporation](#)
- [Blue Avocado: Closing Down the Right Way](#)
- [Blue Avocado: Thinking the Unthinkable: Maybe We Should Shut Down](#)
- [Hurwit & Associates: Nonprofit Mergers, Affiliations and Re-Organizations](#)
- [The M Word: A Board Member’s Guide to Mergers](#)
- [Nonprofit AF: We must all think about sun-setting, not just foundations](#)
- [Nonprofit Dissolution: What Do You Need To Know](#)

Case Studies

- [Patrick’s Cabaret: The Final Act](#)
- [MPR News: Declaring Same Sex Marriage Battle Won, Project 515 Ends](#)
- [Project 515: Leaving a Legacy](#)
- [Propel Nonprofits: VSA Minnesota Case Study](#)