



STRONGER TOGETHER!

Nonprofit Collaborations for a More Resilient Industry

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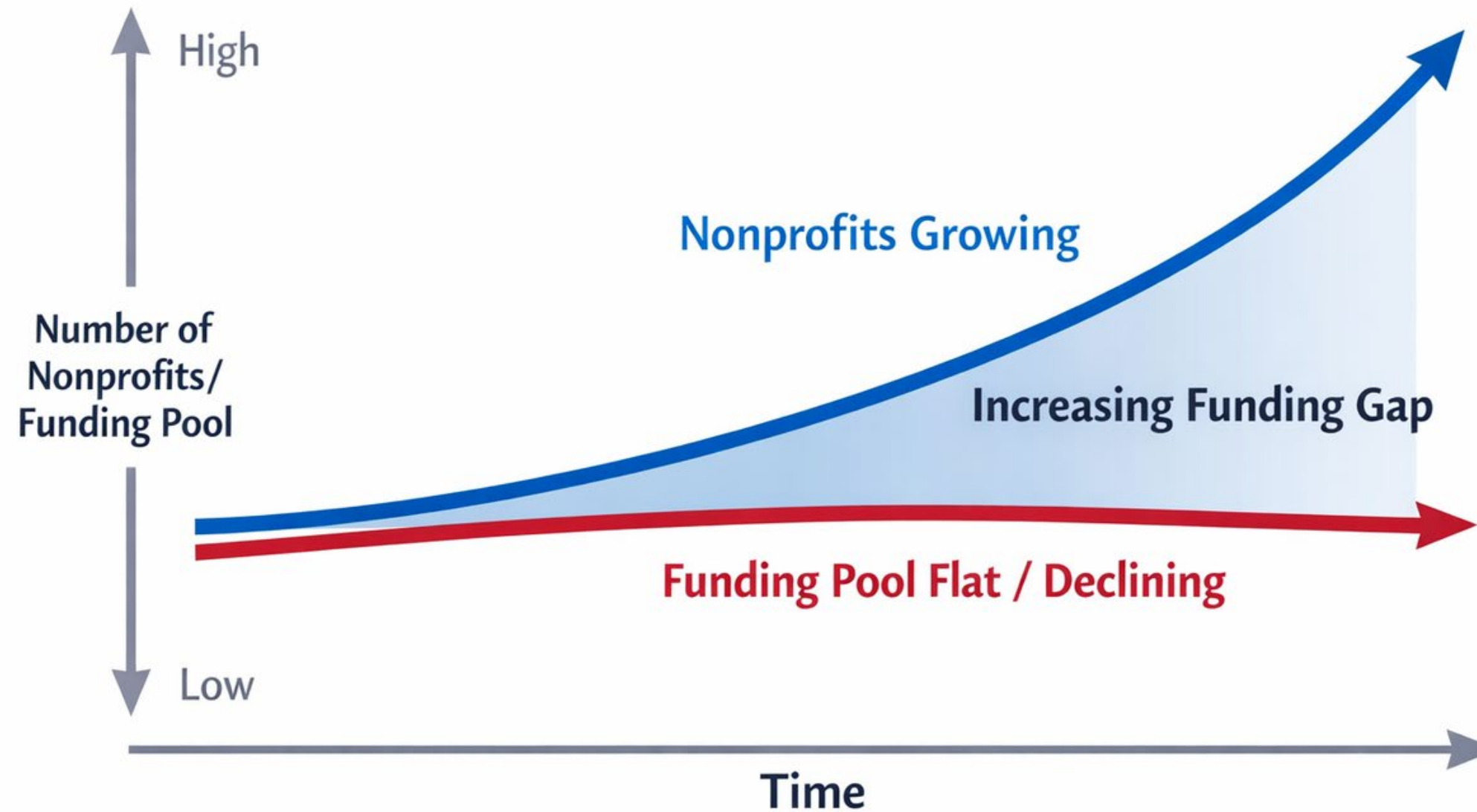
RINGING THE BELL THE COMING STORM

2 Separate but Complementary Problems



THE FUNDING PROBLEM

Nonprofit Growth vs. Funding Availability



THE NARRATIVE PROBLEM

For-Profit World



Mergers & acquisitions signal growth and positioning



Expansion and opportunity

Nonprofit Sector



Mergers seen as failure and mission loss



Institutional failure and stagnation



It's time to rethink how the nonprofit sector views mergers

WHAT DO WE DO?

REFOCUS THE FUNDING



The problem isn't too little money –
it's too many mouths.

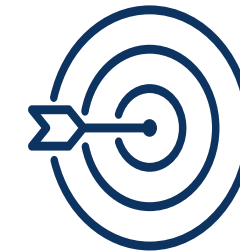
Spread thin = weak organizations
Concentrated = durable impact

Same dollars. Few organizations.
Greater impact.

REFRAME THE NARRATIVE



Combinations as strategic tools, not
last resorts



Organizational viability is a
prerequisite to fulfilling mission

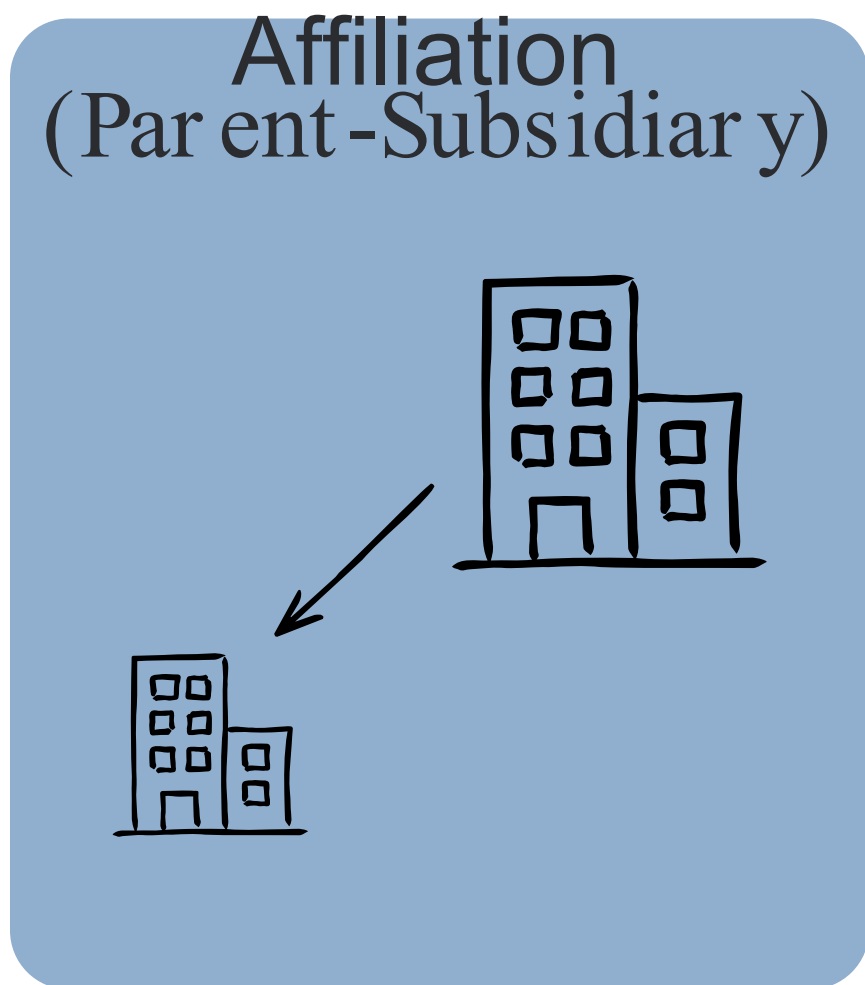


Proactive planning vs. crisis-driven
decision-making

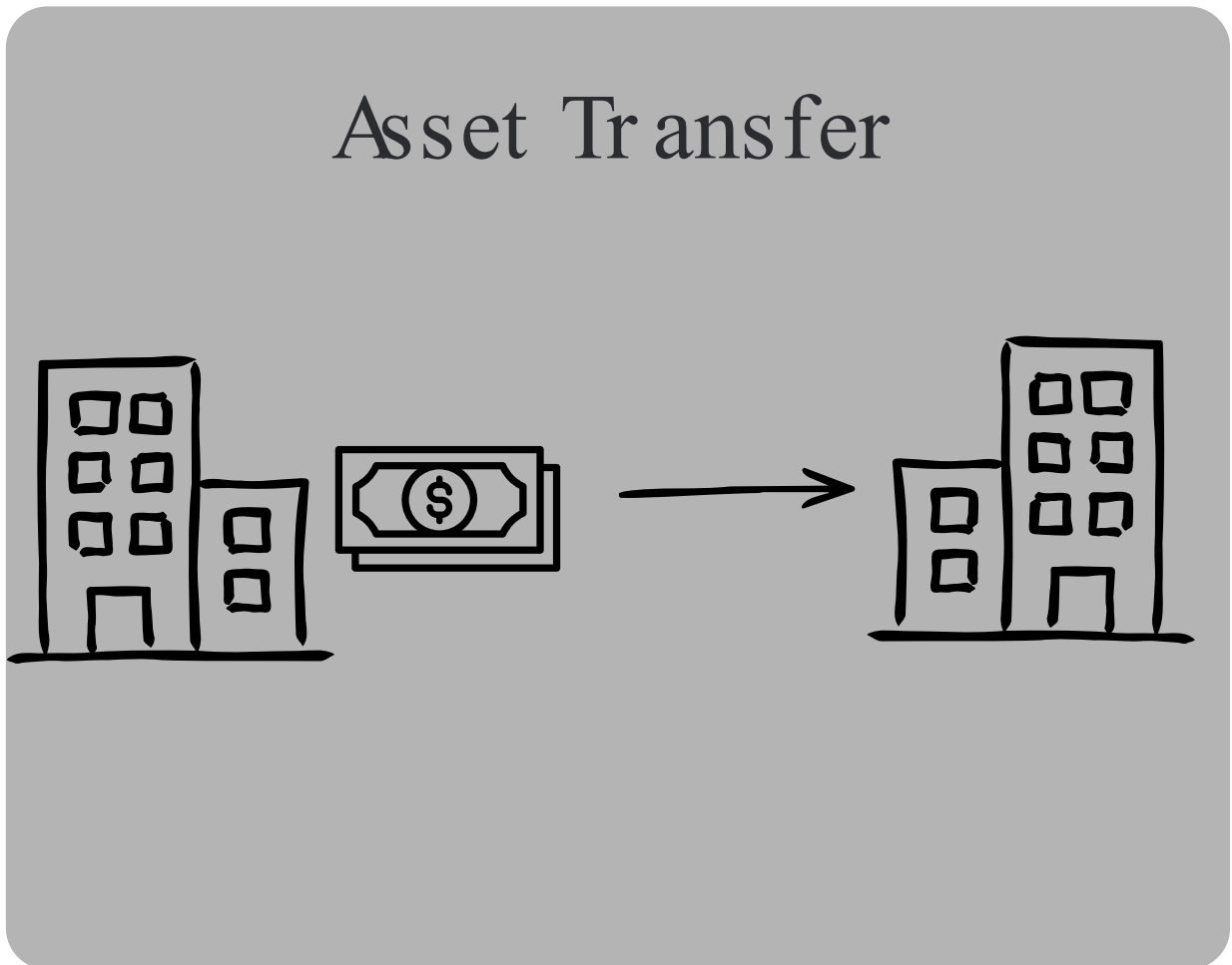
The Three Main Forms of Collaboration

Affiliations, Asset Transfers, and Mergers

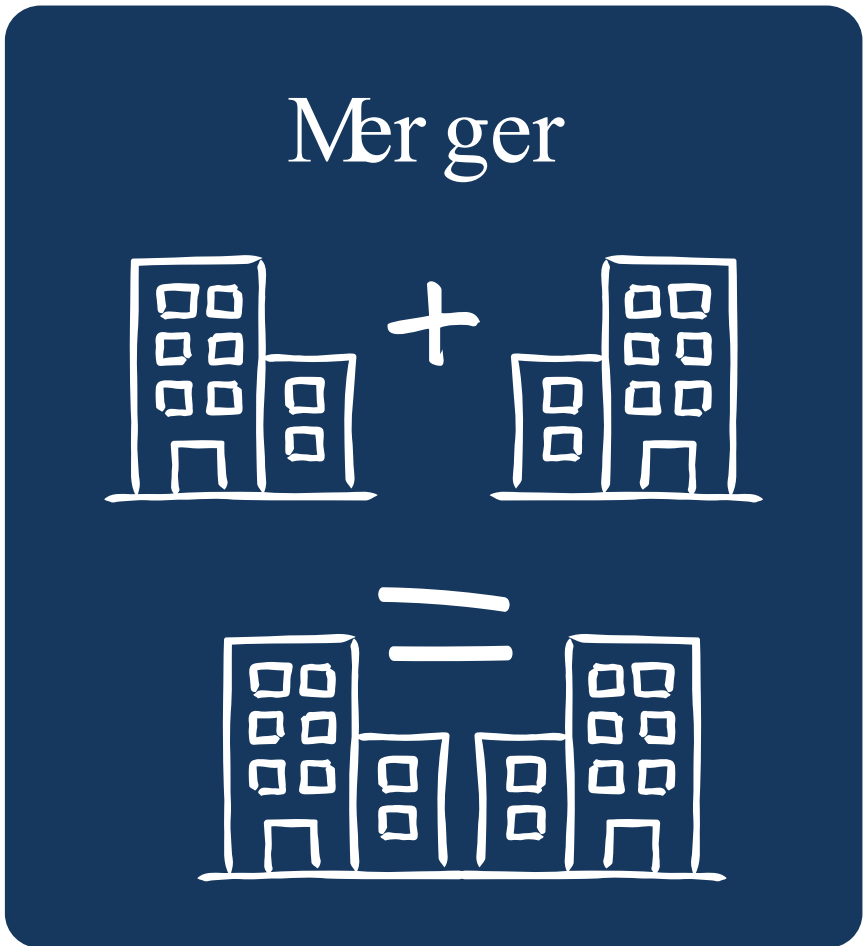
OVERVIEW: THE COLLABORATION SPECTRUM



Separate legal entities, shared control



Targeted transfer of programs or assets



Full combination into one entity

WHAT IS AN AFFILIATION?

Definition : one nonprofit becomes the sole member of another nonprofit corporation

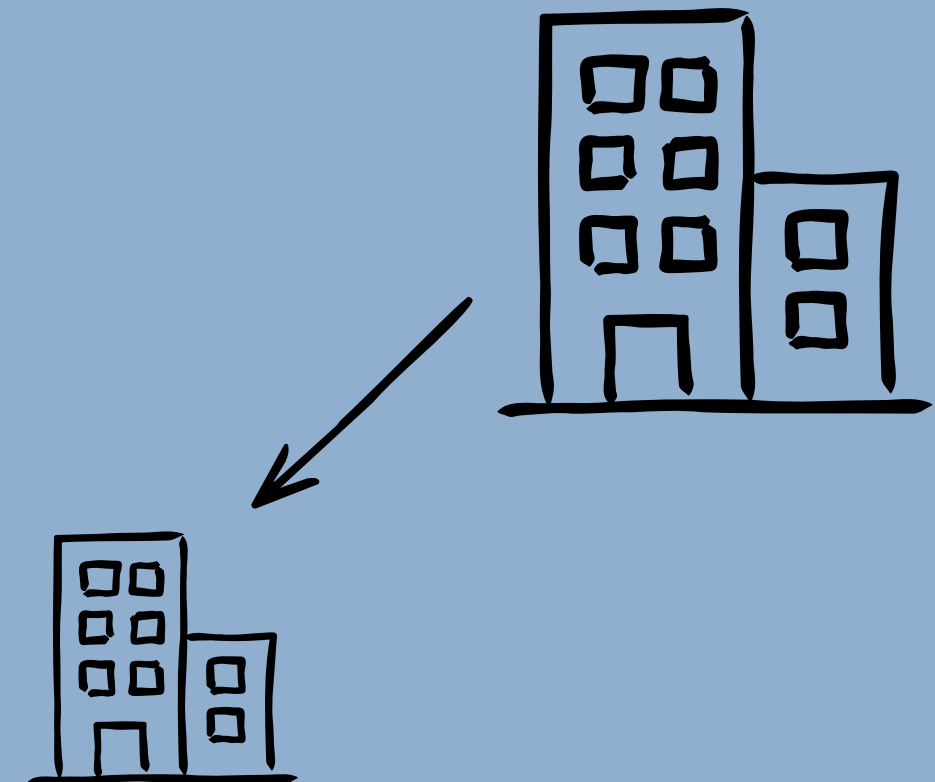
How it works :

- The “parent” serves as the sole member of the “subsidiary”
- Both nonprofits remain separate legal entities

Key Governance Mechanics :

- The “parent” holds governance rights and oversight
- Leadership and boards are aligned or coordinated
- The “parent” has ultimate decision -making authority

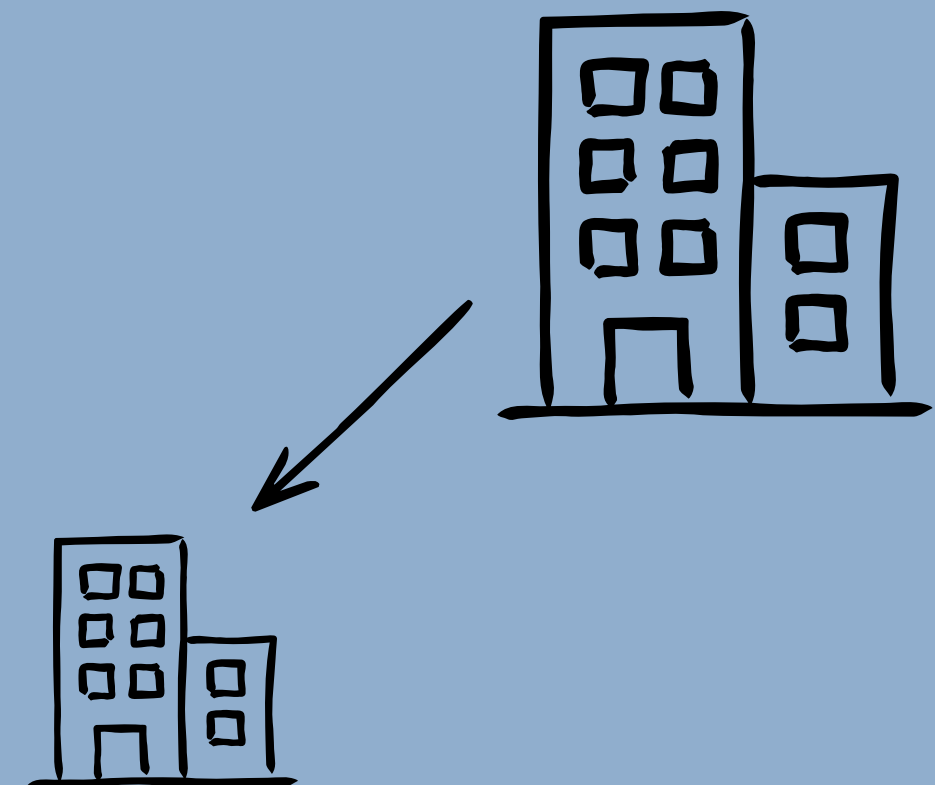
Affiliation (Parent-Subsidiary)



AFFILIATION: ADVANTAGES

- Each nonprofit keeps its own identity and mission
- Maintains distinct staff, donor relationships, and programmatic identity
- Shared operations can reduce costs
- More flexible - easier to restructure or unwind than a merger if needed
- Less disruption to existing contracts, grants, and licenses
- Can be a stepping stone toward a deeper partnership

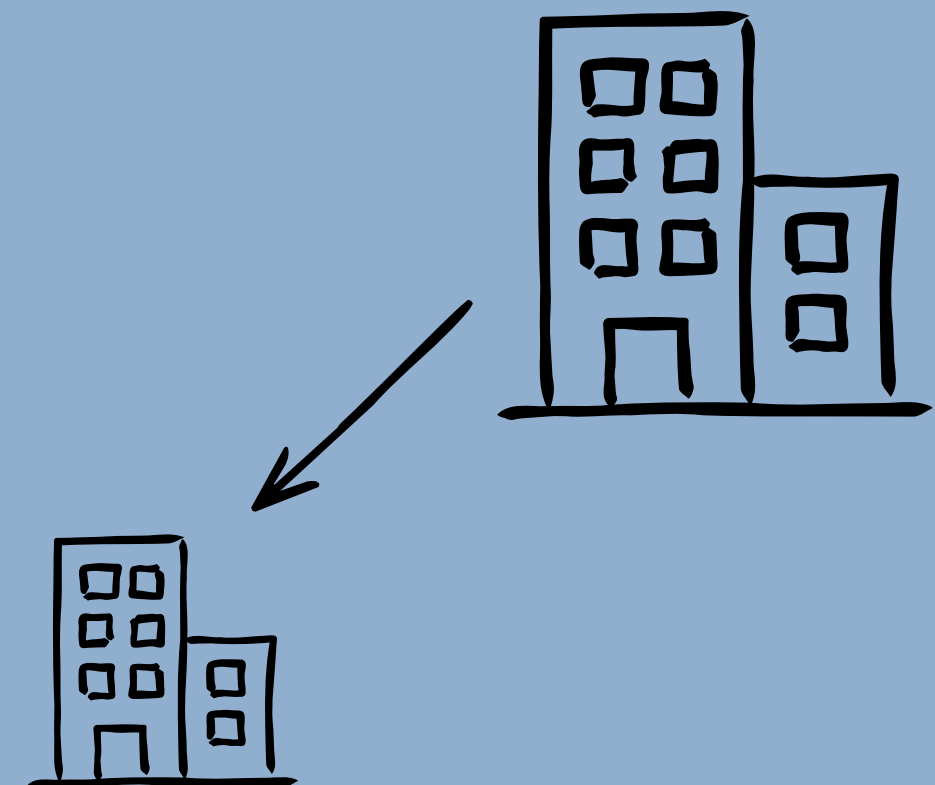
Affiliation (Parent-Subsidiary)



AFFILIATION: DISADVANTAGES

- Governance complexity - dual boards, potential for conflict between parent and subsidiary
- Does not fully consolidate resources or eliminate organizational duplication
- Risk of mission drift or cultural tension between entities
- Potential confusion among donors, funders, and the communities served
- Ongoing separate legal, compliance, and reporting obligations for both entities
- Parent's oversight authority may create friction with subsidiary relationship

Affiliation (Parent-Subsidiary)



Special Situations: Fiscal Sponsorships and Wholly - Owned Subsidiaries

WHAT IS AN ASSET TRANSFER?

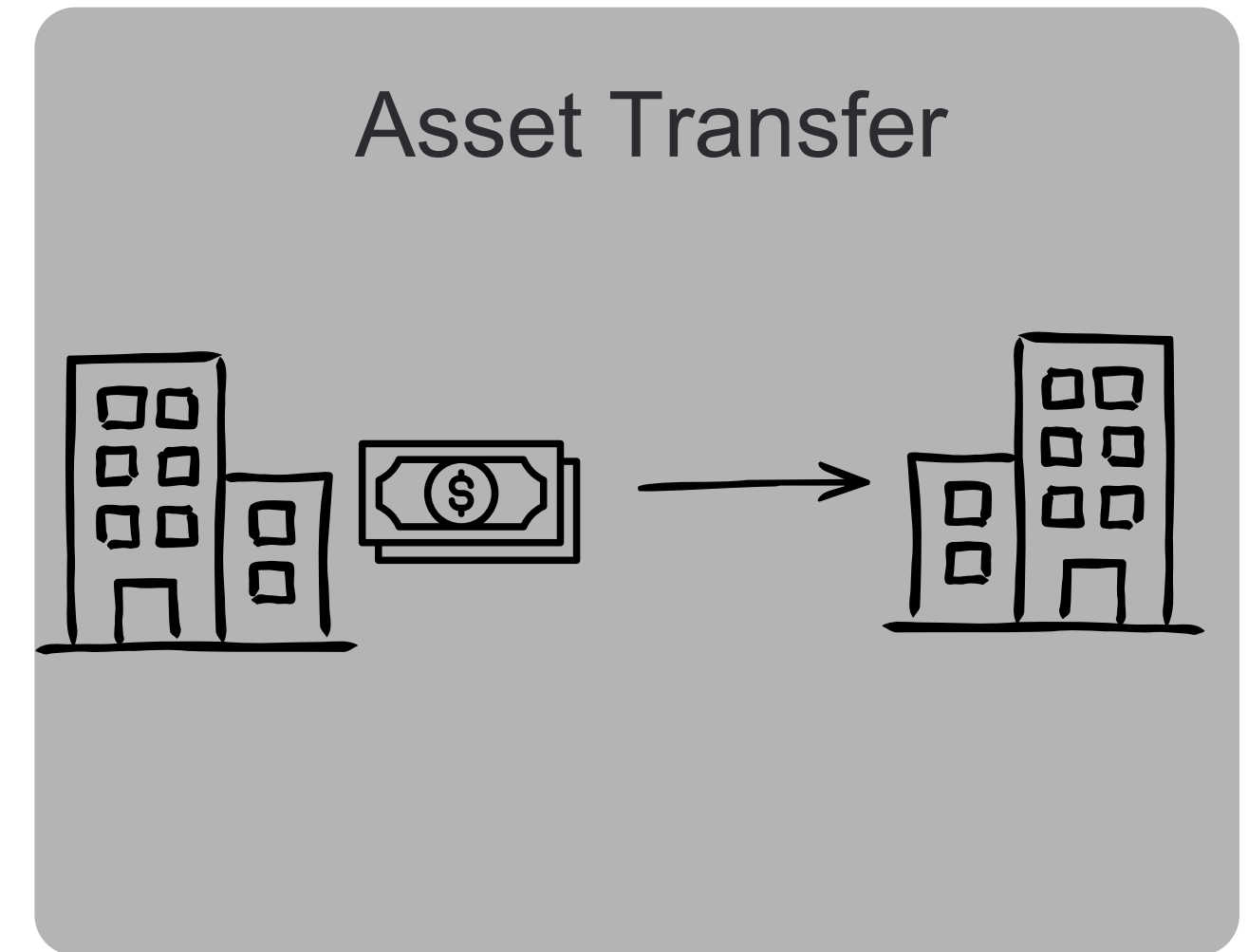
Definition : one nonprofit transfers some or all of its assets to another nonprofit

How it works :

- The transferring nonprofit moves programs, funds, or other assets to another nonprofit
- The transfer can be partial (e.g., specific programs) or complete (followed by dissolution)

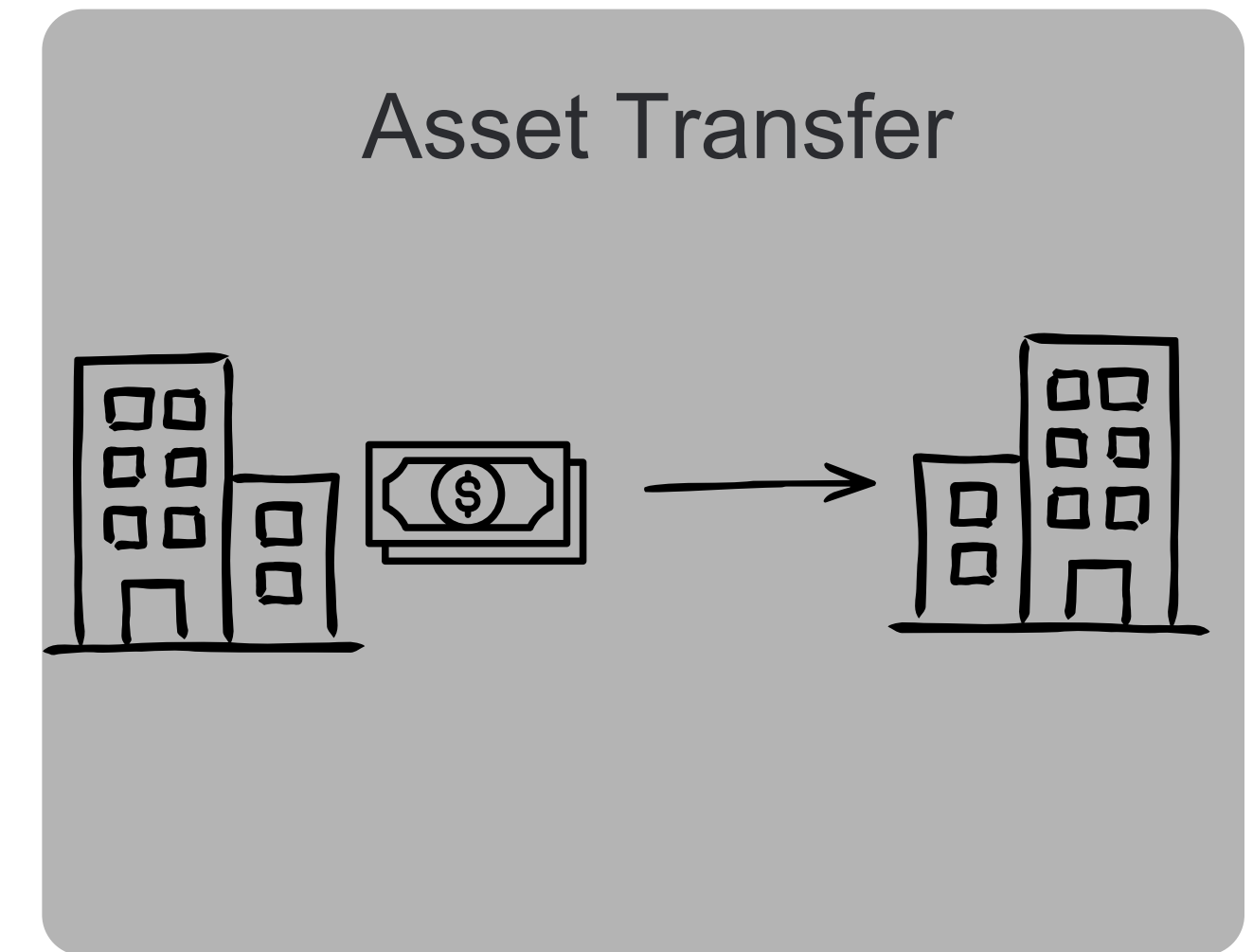
Key Considerations :

- The transferring nonprofit must approve the transaction
- Certain transfers may require notice to the Attorney General
- Restricted funds must continue to be used as intended
- Liabilities do not automatically transfer and must be addressed separately



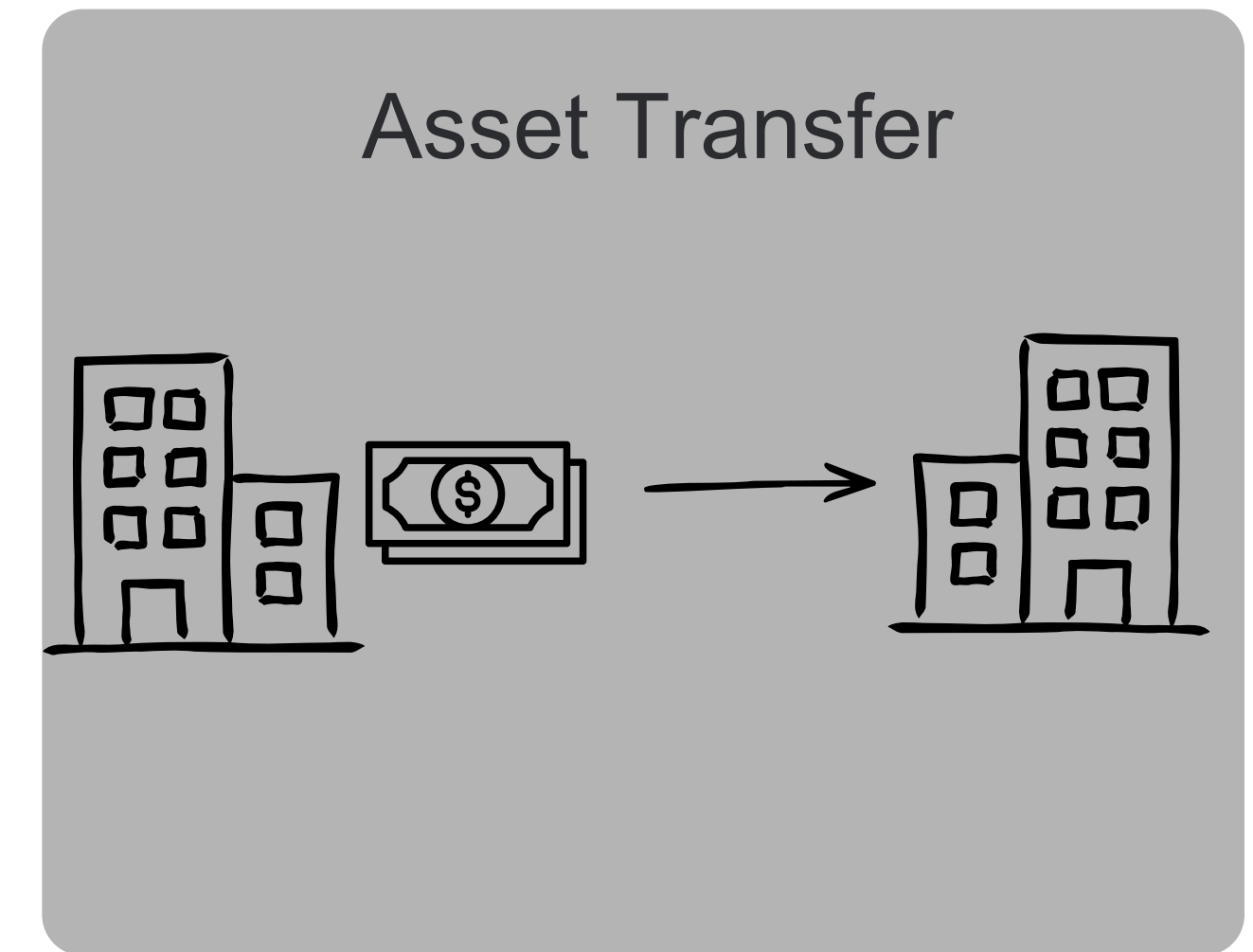
ASSET TRANSFER: ADVANTAGES

- Surgical precision: transfer only what makes sense (programs, property, staff, contracts, etc.)
- Transferring nonprofit can dissolve clearly or retain a narrowed mission going forward
- Fewer governance complications than a merger or ongoing affiliation structure
- Can be faster and simpler to execute in straightforward situations
- Opportunity to preserve restricted gift intent through careful structuring
- Useful when only a portion of a nonprofit's work is being combined



ASSET TRANSFER: DISADVANTAGES

- Does not transfer liabilities by default
 - Hidden liabilities require thorough due diligence (e.g., employment claims, contractual obligations, lease obligations)
- Restricted asset transfers may require court approval or Attorney General involvement
- Dissolution of the transferring nonprofit may cause disruption for key stakeholders
- Government grants and contracts may have change-of-control or assignability restrictions
- No ongoing structural relationship (i.e., post-transfer integration support may be limited)



Special Situation: Transfer at Dissolution

WHAT IS A MERGER OR CONSOLIDATION?

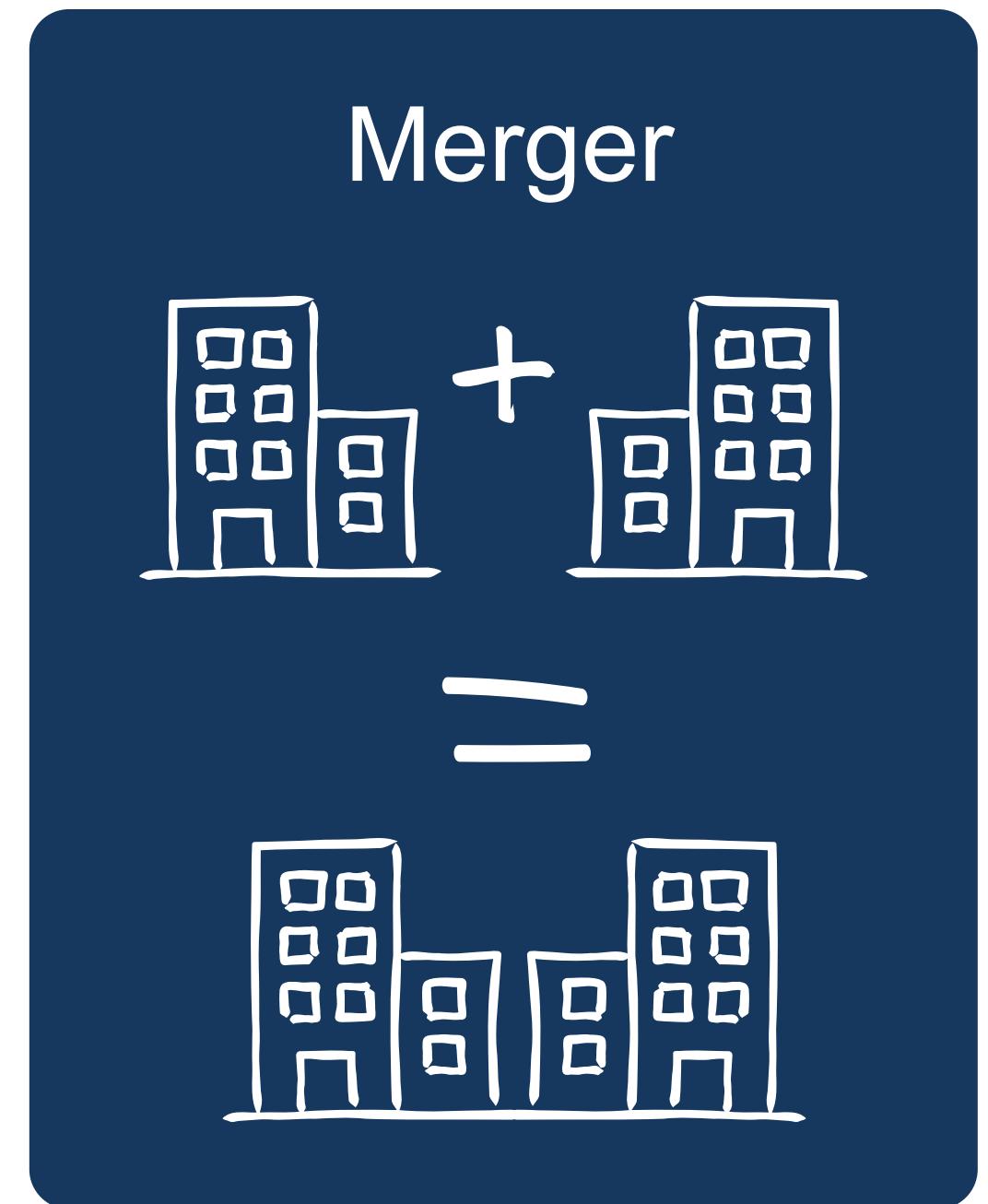
Definition : two nonprofits combine into one organization

How it works :

- In a merger, one nonprofit continues and the other closes.
- In a consolidation, both nonprofits close and form a new entity.

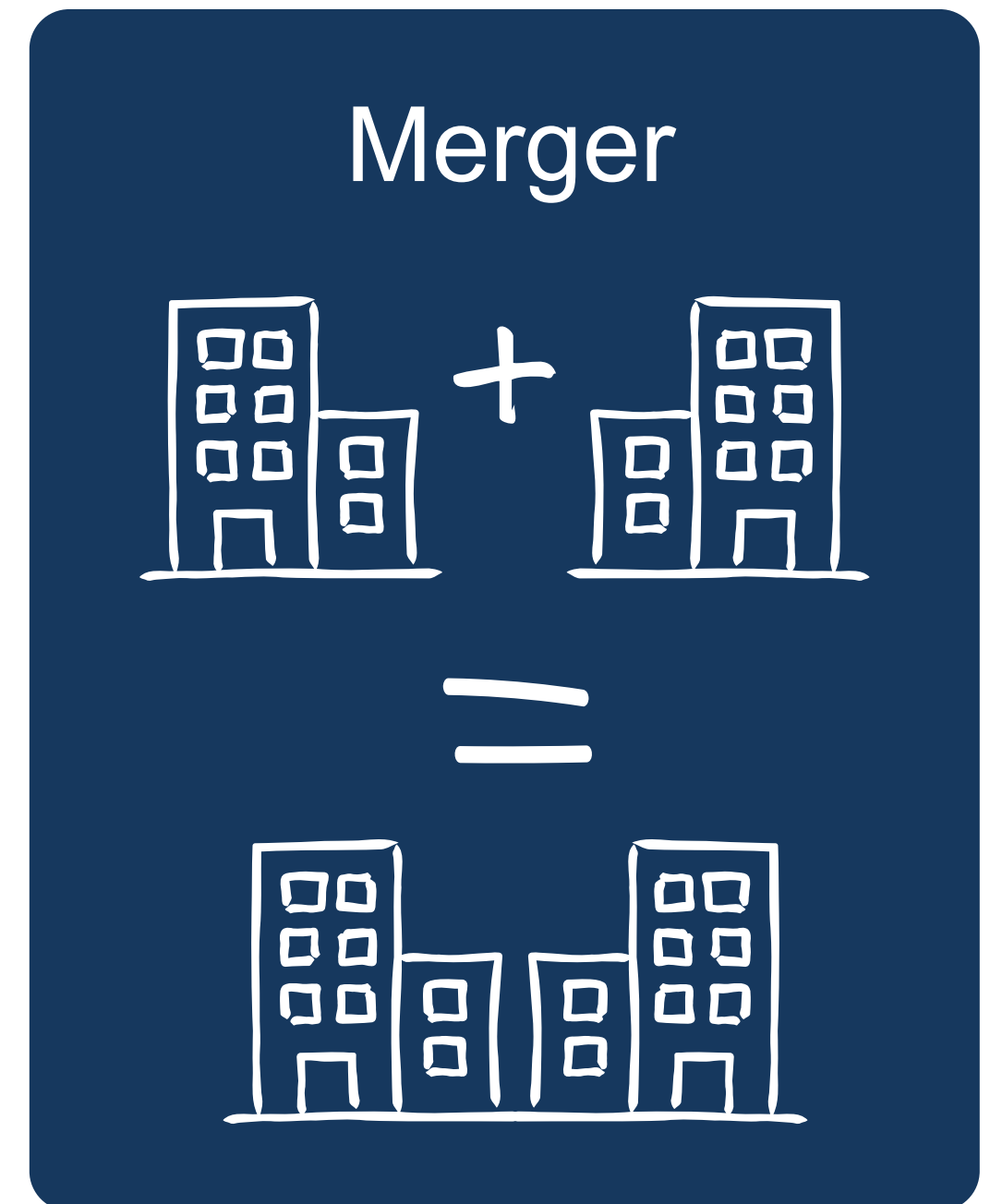
Key Considerations :

- Each nonprofit must approve the transaction
- Member approval may be required (depending on nonprofit structure)
- Notice to the Attorney General may be required
- Final paperwork is filed with the Secretary of State
- All assets, liabilities, and contracts transfer automatically



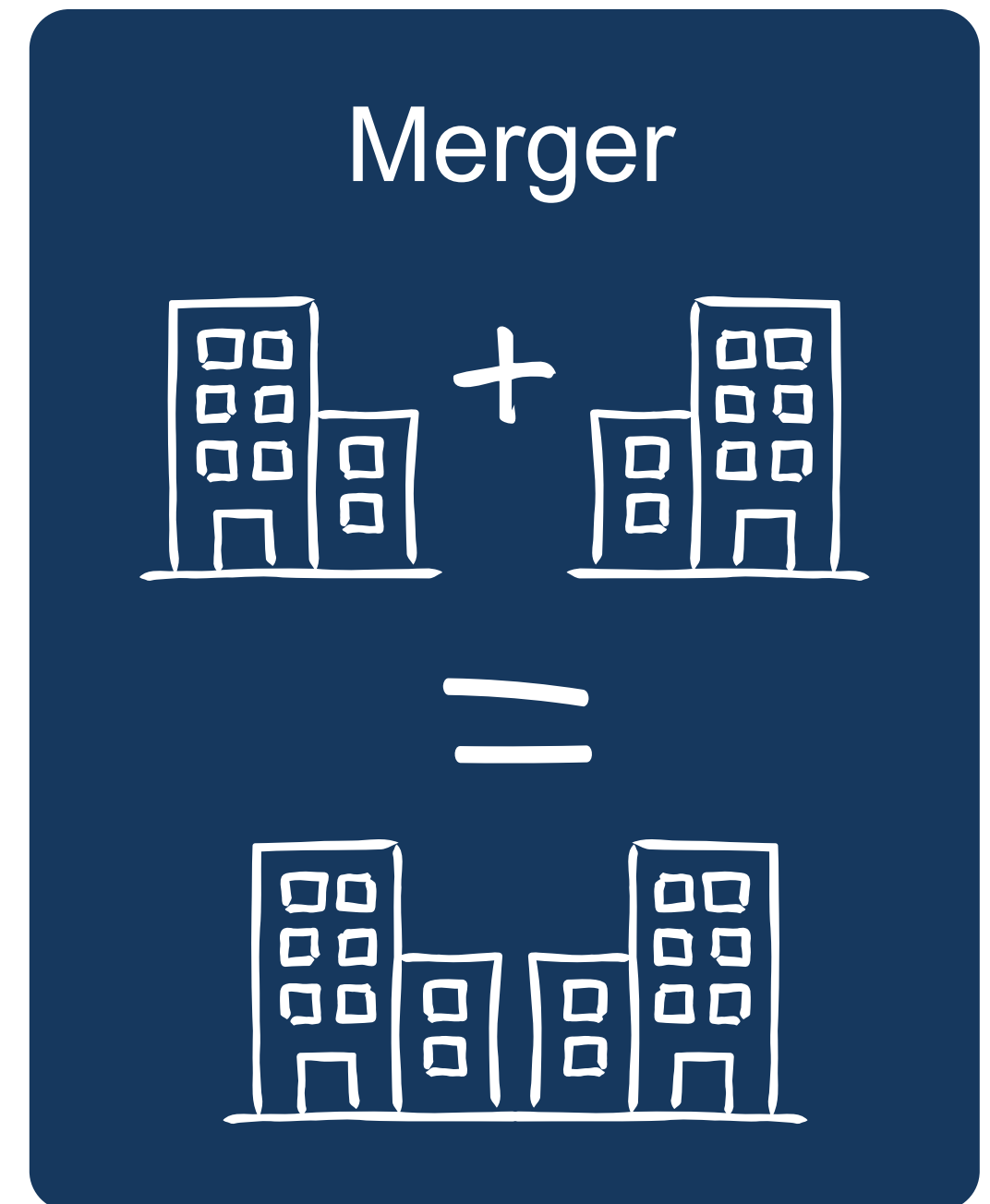
MERGER/CONSOLIDATION: ADVANTAGES

- Full consolidation of resources, staff, programs, and mission into one unified entity
- Eliminates duplicate administrative overhead and operational inefficiency
- Single, unified governance structure with one board and one leadership team
- Strongest signal to funders of organizational commitment and strategic efficiency
- Liabilities and contracts transfer automatically (no separate assignment required, though assignment approval may be required prior to merging)
- Potential for greater fundraising capacity and community profile



MERGER/CONSOLIDATION: DISADVANTAGES

- Most complex, time -intensive, and resource -demanding process of all three forms
- Cultural integration challenges: staff, boards, and donors may resist change
- Loss of one or both nonprofits' brand, identity, and institutional history
- Risk of losing restricted gifts that were tied specifically to the dissolving entity
- Difficult to unwind if the merger fails to achieve expected outcomes
- Requires robust due diligence to avoid inheriting unknown or undisclosed liabilities



Pre-Merge/Collaboration Considerations

THE STRATEGIC ASSESSMENT

- ? **Mission Alignment** : Are the nonprofits' missions compatible or complementary?
- ? **Financial Health** : Are you combining strength with strength, or absorbing a struggling nonprofit?
- ? **Cultural Compatibility** : Leadership styles, staff cultures, and board dynamics
- ? **Stakeholder Impact** : Donors, clients/beneficiaries, employees, and key funders
- ? **Strategic Fit** : Does this merger advance your mission better than going it alone?

LEGAL DUE DILIGENCE CHECKLIST

- ☐ **Corporate Records Review** : Articles of Incorporation, Bylaws, Board Meeting Minutes
- ☐ **Restricted Asset Inventory and Gift Agreement Review**
- ☐ **Government and Private Grant Compliance** : Assignability and change -of-control provisions
- ☐ **Employment Liabilities** : contracts, PTO accruals, severance obligations, L&I claims
- ☐ **Real Property and Lease Review**
- ☐ **Pending or Threatened Litigation and Contingent Liabilities**
- ☐ **Tax-Exempt Status** : 501(c)(3) in good standing, state charity registration current
- ☐ **Intellectual Property** : Trademarks, program names, proprietary materials

WASHINGTON SPECIFIC LEGAL REQUIREMENTS

- The Washington Nonprofit Act (RCW 24.03A) is the primary governing framework
- **Attorney General notice requirements** for certain asset transfers and mergers
- **Secretary of State filings** : Articles of Merger, amended articles post -merger
- **Restricted Assets** : Restricted asset transfers may require court approval or Attorney General involvement
- **IRS considerations** :
 - New EIN vs Retention of existing EIN
 - Form 990 filing obligations for the year of merger
 - Impact on public support test and charitable status
- **State charity registration** updates following the merger

GOVERNANCE CONSIDERATIONS

- Who sits on the combined board and how is sized/structured?
- **Leadership Succession** : which CEO or Executive Director continues?
- **Secretary of State filings** : Articles and Plan of Merger, amended articles post-merger
- **Reserved Powers vs Full Consolidation of Authority** (mergers)
- **Transition Period Governance** :
 - Joint transition committees
 - Interim governance structures
 - Timeline for full governance structures

FINANCIAL CONSIDERATIONS

- Audited financial statement review and normalization across both nonprofits
- Pension and retirement plan obligations
- Restricted fund accounting and carryforward treatment
- Post-merger budget modeling and financial projections
- Funder communication strategy - timing, messaging, and sequence
- Endowment and investment account transfer mechanics

THE HUMAN ELEMENT

- Staff retention strategy and severance planning for displaced positions
- Communicating change to employees early and transparently
- Harmonizing HR policies, benefits, and compensation structures
- Volunteer and community relationship management

Embracing Collaboration in the Nonprofit Sector

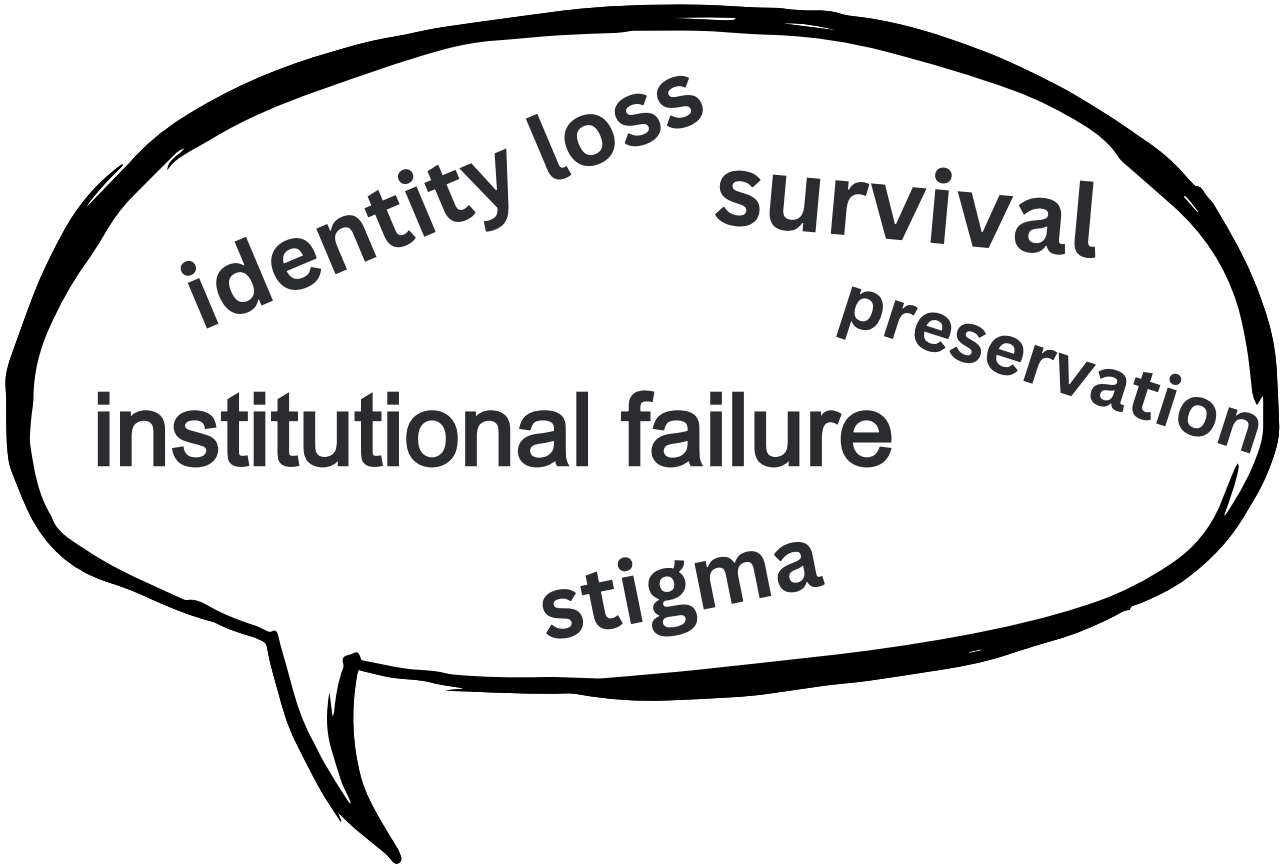
THE SECTOR - WIDE IMPERATIVE

- **Funding landscape** : government cutbacks and uncertainty, foundation consolidation, and donor fatigue
- **Overhead pressure** : funders demanding efficiency ratios and measurable impact
- **Impact demands** : communities need more services delivered with greater efficiency
- **Sustainability** : smaller organizations increasingly unable to weather financial disruption
- The status quo is not neutral; fragmentation has real costs to mission delivery

THE FOR - PROFIT PARALLEL



For-Profit



Nonprofit



Reframe: a merger that saves two struggling organizations and doubles impact is a success

PROACTIVE COLLABORATION

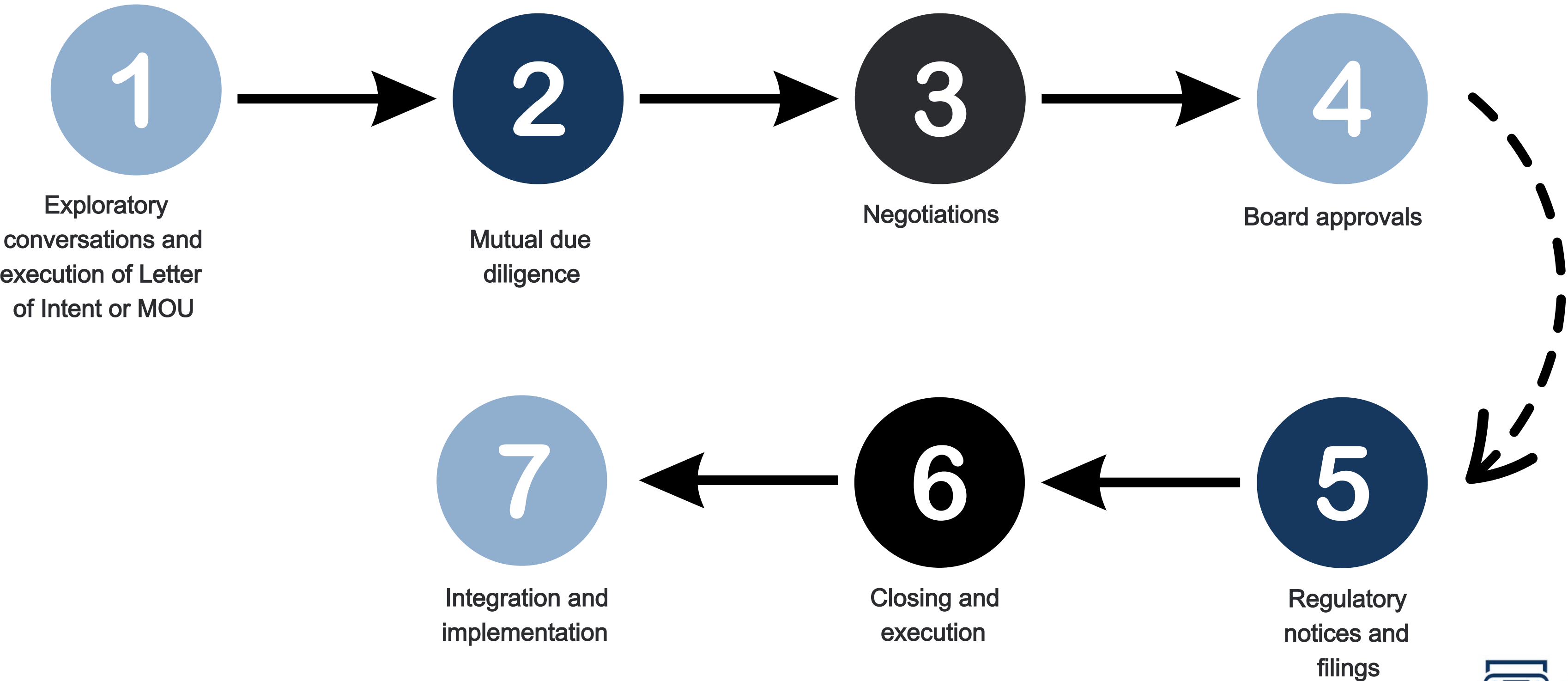
- Organizations can serve more beneficiaries with fewer administrative dollars
- Stronger unified platforms for fundraising, advocacy, and community presence
- Greater organizational capacity to attract and retain mission-driven talent
- More resilient entities that can absorb economic shocks and weather funding gaps
- Funders increasingly incentivizing collaboration through specific grant programs and priorities

A CALL TO THE FIELD

- Boards have a fiduciary duty to organizational viability – mergers and collaborations must be on the table
- Legal counsel, funders, and infrastructure organizations should normalize these conversations
- Encourage evaluations before a crisis forces rushed and poorly structured decisions
- Funders: consider providing capacity -building grants for merger feasibility and transaction costs
- WA provides a statutory merger model - use it!

Practical Process Overview

COLLABORATION ROADMAP



THE ROLE OF LEGAL COUNSEL

- **Managing legal risk** : unknown liabilities, restricted asset issues, employment obligations
- **Shepherding the process** : keeping boards informed, timelines on track, stakeholders aligned
- **Advocacy** : representing organizational interests in negotiations with the merging entity
- **Post-merger** : ensuring regulatory compliance and integration of legal obligations

Conclusion and Q&A

KEY TAKEAWAYS

- **Three strategic tools** : affiliation, asset transfer, and merger - each with distinct tradeoffs
- **No single process is right for every situation** : the facts and goals drive the choice
- **Robust due diligence is non -negotiable** regardless of the form of combination
- **WA law provides a workable and relatively clear statutory framework** - know it before you need it
- **Organizational combinations are strategic opportunities** , not signs of mission failure
- **The sector should embrace these tools** proactively before crisis forces the decision



QUESTIONS?

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