When it’s Time to Fold

CASE STUDY OF AN INTENTIONAL CLOSURE OF A NO PROFIT

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“You've got to know when to hold 'em
Know when to fold 'em
Know when to walk away
And know when to run
You never count your money
When you're sittin' at the table
There'll be time enough for countin'
When the dealin's done
“The Gambler” - Composed by Don Schlitz, famously performed by Kenny Rogers

Nothing lasts forever, not even our most cherished nonprofit institutions. Although much has been written about the nonprofit lifecycle, little has been said about the final chapter of a nonprofit’s life – how to decide it’s time to close, and once decided, how to go about it with dignity and positive results. This case study presents one example of a nonprofit’s decision to close its doors: how and why its leaders came to that fateful decision, and how it was implemented in a way that maximized social impact.

The Rise and Fall of the Cancer Prevention Institute of California Business Model

Cancer touches everyone, worldwide. Almost every person on the planet has – or had - a family member or close friend with the disease or has had it oneself. In the U.S., as other diseases have declined, cancer has emerged as one of our top killers, even with amazing advances in prevention and treatment. Established in 1974 as the Northern California Cancer Center, this organization was initially formed to assist with clinical trials of cancer drugs. By the 1980s it had shifted its focus to the conduct of epidemiologic (that is, population-level) studies into who gets cancer and why, augmented by community education and information programs. (The change of the name came several years later.)

Since the 1980s, CPIC has conducted many well-known studies and disseminated the results in the scientific literature and directly to the community. One example of this high-impact research occurred in 2002, when, in partnership with the Marin Health Department, the organization reported on the elevated levels of breast cancer among women in Marin County, CA. This research revealed that the unusually high incidence of breast cancer in Marin were not geographically based, but rather correlated with many breast cancer risk factors in the demographics of Marin women, notably high rates of hormone replacement therapy usage. This knowledge has contributed to a recent 30% decline in the rates of breast cancer in women from Marin.

Another notable study occurred in 2011, when CPIC researchers noted elevated levels of the deadly skin cancer melanoma in young women, strongly consistent with use of tanning beds. In part based on this finding, California passed legislation to become the first state to ban minors from tanning beds. A CPIC study conducted with Stanford investigators in 2014 found women with early-stage breast cancer treated with bilateral mastectomy did not have better survival than those treated with breast conserving therapy. Over many years, CPIC scientists conducted large, productive studies to help identify why breast cancer occurs in families, and to better understand breast cancer predictors in the large but often overlooked populations of Asian American and Hispanic women in California. The list of research breakthroughs runs pages long. In addition, for most of its existence, CPIC was home to the Greater Bay Area Cancer Registry, a part of both
the federal and statewide cancer registry systems. This huge repository collects essential data on nearly every cancer diagnosis and treatment in the nine-county Greater Bay Area. For years, it has been one of the world’s most robust sources of data on cancer trends and has been the primary source for most of CPIC’s research insights.

At its peak productivity in 2014, CPIC had 18 PHD-level research scientists (considered to be equivalent to faculty in academic institutions and known in the vernacular as “principal investigators” or PIs), most of whom contributed significantly to securing research funding. They were supported by scores of research staff conducting dozens of cancer research studies simultaneously. It was home to the Cancer Registry, as well as the State’s Every Woman Counts program, a cancer information call center which fielded hundreds of thousands of inquiries from the public annually. It had an operating budget of $18,000,000, and about 200 employees.

The bulk of CPIC’s funding for its programs and infrastructure came from a single source: The National Cancer Institute, a part of the federal National Institutes of Health, in the form of peer-reviewed grants and contracts. Additional funding came from the State of California’s Department of Public Health; the US Department of Defense Breast Cancer Research Program; the California Breast Cancer Research Program; and private philanthropy, which primarily supported CPIC’s community education programs. Although NCI funding levels have been robust and even grown in recent years (driven in part by the Obama-era “Cancer Moon Shot”), funding for cancer prevention research has not kept pace, and in recent years has even become more competitive as new insights have greatly expanded opportunities to further our understanding of the disease. As a result, the principal investigators at CPIC encountered a disturbing trend that was shared by colleagues across the country: Although they increased the number of research grant proposals they submitted, their success rate in securing funding steadily declined as competition increased. They spent more time fundraising instead of researching and saw lower results for their increased efforts. Nationally, the “payline” of NIH grants declined to around 7%, that is, 1 in 14 grants have an average chance of getting funded.

For more than a decade, the opportunities for new avenues of research into cancer causes, treatment and prevention have been growing faster than NCI’s research budget could support. Part of that agency’s response has been to stretch its grant budget by focusing more restrictively on specific research projects. Back then, a research grant from NCI typically included a line item of 2% - 4% of the research budget that was essentially general operating support. Grants also provided greater flexibility in reallocating funds to meet shifting needs as a research project progressed. Although not much in relative terms, with research grants often running several million dollars over several years, that less-restricted funding was invaluable in affording PIs some flexibility to fill in gaps, allow some time for reflection on their work, and in general make their budgets fit their research rather than the other way around. Years ago, NCI dropped many of those budgeting techniques that provided flexibility. At the same time, allocations for administrative overhead dropped, leaving researchers even less flexibility. Even with this budget stretching, the competition for research funding grew substantially. To keep their research teams fully funded, these scientists found themselves on a constant hunt for the right combination of grant funding to make their operating budgets add up. Their grant writing efforts increasingly distracted them from their research. (See the Financing a Research Team sidebar for more.)

Over the past several years, two-thirds of CPIC’s research scientists left for greener pastures (a couple retired), mostly at large research-focused universities and well-funded biotech companies. And funding for its information call center dried up, a victim of the maturing Internet era. By 2017, CPIC had shrunk to an annual budget of $13,000,000 and only 85 staff, including just 6 PIs. Throughout this decline, administrative expenses such as rent declined, but more slowly than its research revenue did. As a result, the remaining researchers needed to cover an ever-larger share of administrative costs, even as their funding became more restrictive. That trend had a perverse impact – it became an incentive for the remaining researchers to leave.
A new funding environment gradually emerged. Researchers spent more time researching funding opportunities and less time researching cancer. They spent more time writing proposals and saw fewer successes. And the tight restrictions on the funding they did secure created a nonstop scramble to assemble just the right mix of grants to fully fund every person on the researcher’s team, with no unstaffed research requirements left over. It was impossible to maintain a stable research team for long.

In May of 2017 yours, truly joined the CPIC team, briefly as Interim COO, and assumed the role of Interim CEO upon the retirement of my predecessor. Within a couple of weeks, my assessment of CPIC’s condition and its operating environment concurred with the emerging consensus: Although highly regarded, financially stable and still productive, it was time for CPIC to fold.

The last straw came when three of CPIC’s last six PIs jointly announced they had accepted faculty appointments at the University of California, San Francisco. The researchers’ departures clearly telegraphed to the research community that small, independent research centers like CPIC, whose financial structures relied almost entirely on investigator-initiated grants, were very vulnerable. And the resulting loss of revenue punched an unfillable hole in CPIC’s budget. With the announcement of their departures, the CPIC Board quickly shifted their thinking from if it should close, to how and when.

The Greater Bay Area Cancer Registry

CPIC’s flagship program since its earliest days was the Greater Bay Area Cancer Registry (which was transferred to UCSF in August 2018). Since 1973 the federal cancer registry system supported by the National Cancer Institute has maintained a registry of all new cancer diagnoses and outcomes, as well as preliminary treatments and other key factors, for everyone in the Bay Area. Since the late 1980s, CPIC has collected this data for the Bay Area and maintained all the information collected since 1973. When cancer became a reportable

Financing a Cancer Research Team

Cancer research of this sort is typically conducted by a seasoned scientist with Ph.D. and/or M.D. degrees, known in the vernacular as a “Principal Investigator,” or PI. She is supported by a team of a few people to dozens or more: epidemiologists, biostatisticians, data analysts, community engagement specialists, and the like. She secures a grant to conduct a specific research project testing a hypothesis or filling a gap in basic knowledge. Much of cancer research funding comes from NCI and is tightly restricted to each specific research project. Grants typically run for several years and range from a few hundred thousand dollars to many millions.

NCI research grants fund projects, rather than researchers or their teams. A grant budget covers only the portion of a team member’s time that is devoted to the project – 50% FTE for one person, 20% for another, rarely the full 100%. Most PIs conduct multiple simultaneous projects and cobble together their budgets to – with luck – fully fund her entire team. Overhead allocations are very tight, and rarely cover more than the basics of rent, phone, financial management, etc. It’s a constant scramble to come up with the right mix of research grants to fully fund everyone on a research team.

In the fields of academy and scientific research, a custom exists that when a PI decides to move to a new institution, he or she is allowed to take their entire research portfolio with them – research grants, staff, data, bio-samples, the whole enchilada. This prevents disruption to ongoing research and promotes academic freedom. In the grand scheme of things, the institutions don’t lose out. They lose an occasional research team, but also occasionally pick up a new one. But in the case of CPIC, this custom became costly as it lost the ability to attract new scientists to replace those who left, with ominous budgetary implications.

Scarlett Lin Gomez, Ph.D. MPH, was one of CPIC’s star PIs who has since moved over to UCSF. She told me a highly revealing story: While interviewing for her new faculty position at UCSF, she ran into a colleague. In that brief hallway chat, Scarlett learned her colleague had recently secured a grant that called for a part-time data specialist he didn’t have on his team. Scarlett had a data specialist on her team and had been struggling to fully fund that position. “Hey, when I get my team over to UCSF, you can hire my data specialist for your new project – two problems solved!”

Within that little anecdote lies a fundamental reason why CPIC’s leadership determined it was time to fold. While NCI’s strategy to stretch its research budget may have enabled more projects to be funded, it had an unintended consequence: it gave an unmistakable advantage to large institutions with hundreds of researchers who could collaborate on cobbling together their funding. With most funding coming from a single source that is highly competitive and tightly restricted project funding, PIs – the scientists who drive cancer research – have far greater success in cobbling together their budgets if they are positioned within large research institutions with hundreds of peers with whom they can collaborate on funding (not to mention their research). That competitive advantage means that CPIC’s cancer-prevention Mission can be better pursued by large institutions like Stanford and UCSF than at smaller shops like CPIC.
disease in California in 1985, the statewide California Cancer Registry was created, and the Greater Bay Area Cancer Registry reported its data to that larger entity, as well as to the federal registry. Given its massive size and rich diversity, the Greater Bay Registry has long been one of the most sought-after sources of cancer incidence data anywhere in the world. There’s even a pre-Silicon Valley component to its inception: Researchers at Stanford developed a searchable computer database that the CPIC registry used to house this data, when most other registries were still paper-based. For many years, CPIC’s in-house expertise to use the data for high-impact research studies was nearly unique and served as a potent incentive for researchers to work at CPIC.

Over the ensuing decades, numerous other cancer registries were created, and technology advanced. While the massive increase in cancer data was a boon to research, it also gave researchers many more options for where to conduct their research.

At about the same time that CPIC’s leadership built a consensus that it’s time to close, the federal contract funding the Registry (NCI) came to an end. For the first time ever, NCI decided to forgo their usual sole source contracting process to renew this funding, and instead went with a competitive RFP for all registries nationwide. At the same time that we began fleshing out the momentous implications of the decision to close down, we partnered with UCSF to submit a proposal to NCI for a new contract funding the Registry. It’s a testament to the high stature of this Registry, and to the reputation of its leader, Dr. Scarlett Lin Gomez (whose new position at UCSF enabled her to retain her leadership role of the Registry) that NCI awarded the new contract (worth roughly $50 million over 10 years) to CPIC, in the full knowledge we would transfer that contract to UCSF and then close down.

How CPIC Concluded It’s Time to Fold – In Time to Do it Gracefully

The Board of CPIC had been increasingly concerned about the organization’s long-term trajectory ever since it lost some of the federal funding for its cancer information call center. Conditions stabilized as CPIC recovered from the Great Recession of 2008-09. Then a series of departures of research scientists sparked fresh concerns. In 2016, the Board requested that administrative staff conduct several analyses projecting CPIC’s financial future. Even the most optimistic of these forecasts showed CPIC’s financial demise several years out. As a response, the Board launched several initiatives and hired new staff to diversify CPIC’s revenue streams and explore options:

Philanthropy: A significant push to increase contributed revenue generated minimal results. In hindsight, it’s not surprising. Despite the old adage about “an ounce of prevention,” private funders and donors are far more attracted to financing treatments and (we hope) cures. To claim, “My grant saved 10,000 lives!” is far more appealing than “My grant might or might not have helped prevent 100,000 cases of cancer!”

Sponsored research: This is a euphemism for research funded by corporations, sometimes with a vested interest in the research being conducted, and as such was less appealing to the PIs. This effort also produced little, perhaps for the same reasons the philanthropic push stalled out.

Strategic partnerships: CPIC explored several partnerships based initially on research collaborations. Any of them could conceivably have led to a merger. In one, merging was explicitly explored. But it takes two to tango. In all instances, the partner’s capacity and strategic interests didn’t align, and the partnerships fizzled.

Closing down: This option emerged but was not explored until 2017.

All the while, researcher departures continued, leaving those remaining an ever-larger share of the administrative costs of the organization.
By May of 2017, the gig was up. None of CPIC’s initiatives to diversify revenue or establish strategic partnerships had panned out. They were down to six research scientists. When three of them announced they had accepted faculty appointments elsewhere, it became obvious that closing the organization was the right thing to do.

Lessons for the Nonprofit Sector

Although every nonprofit’s operating environment and business model are unique, there are some critically important lessons that can be learned from CPIC’s experience. Most nonprofits face ongoing challenges that at times – especially during economic crises – can raise questions regarding the organization’s long-term viability. That’s pretty routine – time to “hold ‘em.” But how can a nonprofit’s leaders accurately pick up on the warning signs that holding on isn’t going to work much longer, and it’s time to fold? Or, at a more profound level, when is it time to step aside because other organizations are better positioned to pursue the mission? Here are some warning signs that CPIC’s leadership picked up on that brought up closure as a strategic option, and that ultimately convinced its leaders that closing (after preserving its Mission at other institutions) was the right option:

- Long-term, gradual decline in activity. CPIC’s range of programs, which had included not only research but also information dissemination and community education, declined steadily for nearly a decade, with few upticks. Some of this decline was driven by technological advances (the Internet is a better platform for education than a phone bank). But much of the decline was driven by changes in the funding practices of its principal funder, NCI.
- Difficulty attracting and retaining revenue-generating talent, and their departures are for similar reasons. This was the key indicator that told CPIC leadership that, not only had they lost their financial viability, it was for a good reason from the perspective of their Mission: Those talented scientists who are the drivers of the research were faring better at larger institutions, where they could spend less time fundraising and more time researching. See the “Financing a Cancer Research Team” side bar for more.
- Consistent declines in the primary revenue stream, despite that funding source being stable or even growing. CPIC researchers saw marked, steady declines in their success rate in securing research grants, even though the funding source – NCI – had a stable budget, and despite their strong track records of results. Something was going wrong, even if they didn’t know yet what that was. In this case it was increasing competition for research funding.
- Other organizations are achieving the same or similar missions with better results. CPIC’s decades of research breakthroughs constitute a legacy that will live on for decades. But changes in how this research gets funded drove a tectonic shift in researchers’ operating environments. Those based at large research institutions, with hundreds of peers with whom they can collaborate on cobbling together funding and an array of additional funding opportunities besides NIH, were spending less time fundraising and more time researching.
- Organizational fatigue. Among both the board and senior staff, years of effort in diversifying revenue, retaining talent, and balancing the budget took a toll. There’s no doubt that, had a viable alternative still existed, CPIC’s leaders would have risen to it. But the collective level of fatigue was a subtle indicator that, intuitively at least, everyone knew the time to fold had come.
- Long-term financial analysis. The analysis the CPIC Board requested was what brought to the surface the option of closing the doors. It also made clear that with only 6 PIs, CPIC didn’t have nearly enough rainmakers to remain viable.
- Successive failures at revenue diversification. CPIC leaders tried everything they could think of to diversify revenue streams, which in hindsight were efforts to adapt its business model. None succeeded, despite valiant efforts. The problem wasn’t within CPIC, the problem is in its operating environment – especially the arcane appeal of cancer control and prevention research.
• Successive mismatches at strategic partnerships. Partnering, even merging, with a like-minded organization is a potent way of rapidly adapting to a new business model. This case study doesn’t evaluate why CPIC’s several overtures didn’t pan out. But repeated failures do clearly indicate that partnering is not the answer.

It’s also worth noting some factors at play at CPIC that were not indicators that closure was necessary. Bluffs, in the poker metaphor:

• Heavy reliance on a single funding source. This is often a red flag in the nonprofit sector. But it worked quite nicely for CPIC for 44 years. And that funding stream is still quite robust. It’s also core to the nature of CPIC’s mission: cancer control and prevention research funding has for many years been largely the purview of the federal government. CPIC’s ongoing reliance on a single funding source made it more difficult to adapt, but in and of itself wasn’t a warning sign that the gig was up.

• Ongoing financial stability. CPIC had chronic challenges getting its budget to balance. Who doesn’t? All through the organization’s decline, there were occasional operating deficits that were relatively unremarkable. By and large, CPIC was able to reduce expenses fast enough to avoid a crisis. It maintained a balanced operating budget most years and held onto healthy reserves. While recurring, substantive deficits would clearly be a sign a nonprofit might be headed toward the exits, financial stability isn’t by itself an indicator that the organization is sustainable.

• Strong organizational reputation. CPIC was very highly regarded within the cancer research field. The many ground-breaking research outcomes CPIC produced over the years speak volumes. The Cancer Registry is widely regarded as among the best in the country. Most telling, NCI awarded CPIC a new, 10-year contract for the Registry in the full knowledge CPIC intended to close down. As with financial stability, a failing reputation would clearly be a warning sign. But the reverse isn’t necessarily true.

It can be extraordinarily difficult for a nonprofit’s leaders to filter out the routine challenges in running their organization from the early warning signs that their organization is no longer sustainable. When in that conundrum, one option short of deciding to fold, is to think through an “exit strategy,” an analysis of what it might take to close down an organization in a dignified way. Developing an exit strategy involves taking a stab at answering three interrelated questions:

1. How much time would it take to preserve our services and close down?
2. Who would we need to have stick with us to the end, in order to succeed?
3. How much would this cost?

No leader is going to be able to answer these questions with precision. But even ballpark estimates would be invaluable as leaders confront questions of their organization’s sustainability. If they have an estimate of how much time, effort and money it would take to close down properly, they will have a better sense of if – and when – that option should be brought forward for serious consideration.

The Final Hand

CPIC’s leadership decided it was time to fold when they still had some chips on the table. That gave us precious time to preserve its Mission and leave a lasting legacy. Every single research project and community education activity that was ongoing in 2017 has since been preserved by being handed off. Most of these assets went to the Helen Diller Family Comprehensive Cancer Center at UCSF, and the remainder went to Stanford University’s Stanford Cancer Institute. Nothing was lost. There will be enough financial reserves left over at the end that the Board has elected to endow two research fellowships, one each at Stanford and UCSF, as an inducement to future scientists to focus on cancer control and prevention research. In these
endowed fellowships, CPIC’s name and Mission will live on, in perpetuity. It may be time to fold, but by deciding this soon enough, CPIC definitely won the final hand.

Anatomy of a Dissolution

Caveat: Following is a generic outline for informational purposes. This is not legal advice. Any serious pursuit of dissolution requires appropriate legal counsel. Also note that this outline is based on California law as it applies to a 501 (c)3 organization. Other states and types of corporations may vary.

- The leadership of an organization concludes that dissolution probably or definitely is the best course of action. This often involves conferring with key constituents, including funders, program partners, and clients.
- Retain an attorney with nonprofit expertise!
- Review all of the organization’s contracts and any other legal obligations. Determine how best to exit from the obligations created by these contracts. This may involve extensive negotiations with other parties to the contracts.
- Pay special attention to lease obligations. Even in a strong real estate market they can be especially costly and time consuming to terminate.
- Conduct a preliminary financial analysis: Does the organization have enough revenue and/or reserves to fund the winding up of its affairs in orderly fashion? Are there soft assets, such as intellectual property or programs that can be sold to pay off debts? If there are not enough assets to pay off all of the organization's debts, seek legal counsel and consider several bankruptcy options.
- Inventory hard and soft assets such as programs and services that warrant preservation. If any assets have monetary value and must be sold to raise cash, determine their value (in some instances a formal appraisal is warranted) and develop a sales strategy.
- Determine the best recipients of each asset. Be aware that all of a nonprofit’s assets are irrevocably restricted to furthering the tax-exempt purposes stated in the dissolving nonprofit’s Articles of Incorporation. If multiple possible recipients are identified, an RFP process might be warranted. In most instances, recipients will be other nonprofits that the nonprofit believes can best use the assets to further the dissolving nonprofit's mission. Assets can be sold to individuals or for-profit businesses, with proceeds to pay off debts and/or be donated within the sector.
- Develop a dissolution plan. Include how to proceed with distributing programmatic assets, internal and external communications, winding up of programs or services that are to be closed, and how/when to terminate employees. Some employees may be critical to achieving a smooth dissolution. Consider retention bonuses to ensure these employees stay with the organization through to the end.
- Develop a budget to fund the dissolution plan.
- Confer with the organization’s auditors about the dissolution plan.
- Review the organization’s finances and take steps to simplify them: complete the requirements to release all temporarily restricted funds. Pay off any loans or other payables. Accelerate the collection of receivables.
- Only when all of these preparatory steps are completed (or at least well under way) should the Board formally vote to dissolve the corporation. Once that action is taken, the auditors are required to shift to a liquidation basis for the next audit. This includes reverting to a cash accounting basis as of the date the dissolution vote is taken. Have your attorney prepare a dissolution resolution for adoption by the Board.
- Your attorney will walk you through preparing a Certificate of Dissolution, to be filed first with the state Attorney General (as part of a request for a waiver of objections to the dissolution) and then the state Secretary of State, after the corporation has wound up. The request to the Attorney General must include a plan for the distribution of all remaining financial assets, if any.
• Make plans to retain the organization’s corporate records for several years post-dissolution. Retention requirements vary, but typical requirements include HR records to be retained at least 3 years, and financial records at least 7. Consider the statute of limitations on legal actions, which can be 10 years for charitable trust matters in California. Some legal and accounting firms are capable of being stewards of the records, for a prepaid fee. If not, members of the Board will need to find another solution or possibly have one of the Board members do this. Usually, files are either placed into long term storage, and/or are stored electronically.

• Identify the insurance needs post-dissolution. At a minimum, retain a Directors and Officers (D&O) insurance policy to continue protecting the Board. The usual minimum is 3 years of coverage, but it may be cost-effective and more reassuring to the Board to purchase a full 10 years of coverage in advance, covering the entire statute of limitations. Insurance firms often provide a significant discount on prepaying multiple years’ worth of coverage post-dissolution.

• Send a notice to all vendors and other entities with which the organization has had financial dealings in recent years, announcing the plans to disband. After this notice is sent, vendors have about 4 months to submit final invoices or make claims. After that window closes, further claims no longer need to be recognized.

• Conclude distributing the last of the organization’s programmatic and other soft assets. Complete the final audit and wrap up all remaining receivables and payables. Consolidate the organization’s remaining cash into a single checking account, controlled by the Board. Terminate the last employees.

• When all of the organization’s affairs have been settled, insurance prepaid, and files placed into storage, all that will remain will be a bank account. The final act of the Board will be to write one or more checks to selected beneficiaries, which also close out the account.

• File final information returns for the IRS and state agency (Franchise Tax Board in California) for the final accounting year of the organization, which will end on the date the dissolution becomes effective.

• Check for other final filing obligations, including the final dissolution package with the Attorney General, which typically includes a copy of the Certificate of Dissolution filed by the Secretary of State and the final financial report for the organization showing that all assets were distributed properly, resulting in a zero balance.

• Fini.

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