

## The Difficult Decision: Closing a Private School

Unfortunately, some schools, because of various circumstances, face a combination of weak enrollment, poor fundraising efforts, and budget overruns. Sadly, sometimes the right decision by the Board is to close the school. This article explores the steps required to close a school with integrity.

Before deciding to shutter a school, the Board and School Head should take an inventory of local schools that share similar values and educational philosophies and seek merger opportunities.<sup>1</sup> Nearly always preferable to the outright closure of a school is the opportunity to merge with another like-minded one. Private schools are values-rich institutions. Each constituent group experiences those values differently, such as:

- parents choose your school because the school's mission fits with their personal values;
- students invest their time and build relationships with their classmates and teachers and find predictability in the learning atmosphere;
- faculty and staff members entrust their livelihood to the school;
- donors invest their hard-earned assets and appreciate the school's mission; and
- alumni have great pride in their institution and its accomplishments.

Mergers are preferable because students can stay together, and it offers a clear next step for many faculty and staff members. The continuation of the mission, although not exactly as it was before, can give donors the sense that their gifts still have an impact, and a place where alumni feel they still belong. Mergers also bring about difficulties, especially around leadership (Executive and Board), donor loyalty, and faculty culture shifts. But the decision to close outright is laden with far more difficulties. Faculty and staff members face unemployment; students face the loss of their friends and classmates and their academic progress can be affected; and donors can feel as if your school squandered their investments. Providing a way for the school's values and mission to continue, although difficult work, is almost always preferable and worth the investment of time and resources.

ISM strongly recommends that the Board do everything possible to remain operational until the end of the current school year. It is in the best interest of students to limit change as much as possible. The new academic year provides a logical breaking point, and while moving to a new school is stressful, moving to a new school in the middle of the academic year creates unnecessary stress.

The first step in closing a school occurs at the Board level. A Board resolution to close is required. We recommend that the following are true before the Board votes affirmatively to close the school:

- enrollment declines for three years or more, 10% or higher annually, with no logical way forward to right size or reverse the decline;

- operating losses for three years or more and inadequate cash reserves or lack of fundraising capacity to balance the budget;
- low and declining Value Perception or Net Promoter Score;<sup>2</sup> and
- unanimous agreement by the Board that there is no way forward.

Dissolution is a change in your nonprofit's status and is governed by state law. The school must seek guidance from an attorney, accountant, and other professionals who have experience with state and federal laws relating to the dissolution of tax-exempt organizations. Dissolution is a complex legal process.

Once the Board has adequately exhausted all avenues to keep the school open, it must take official corporate action and, by majority vote, affirm a plan of dissolution. If your school has members (some school bylaws include parents as voting members, usually selecting the Board and approving other business matters), the membership must vote affirmatively to approve dissolution. Draft the plan of dissolution before the vote. Many states have a form for this process. It must be filed with the state agency that handles corporate registrations.

Once the plan of dissolution is filed and approved by the state, two processes must run on parallel tracks—winding down a) the operational aspects, and b) the legal aspects.

### Operational Considerations

Winding down school operations begins with notifying parents, students, faculty, staff, donors, and alumni of the Board's decision to close. If your school merges with another school, the message will be easier to hear than if the school is closing. The Board should be transparent about why closing or merging is necessary. Once you release the news, prepare for one-on-one meetings, especially with large donors, community leaders, and alumni. The Board should create a communication strategy to assure the closure message is consistent. Teachers must be prepared to help deal with student anxiety, and the school may need to provide professional help for teachers to deal with their own anxious feelings. The Board must give the School Head ample support through this process.

If you're merging with another school, an agreement about a straightforward process of re-enrollment should have been negotiated in the merger agreement. Those families staying with the school should complete the current school year and transfer to the new school in the fall. Your Admission Office can transfer all student records, and the new school should hold welcome days so that students can learn about the new school and visit the new campus. Interviewing and hiring your faculty and staff, as determined by the merger agreement, should occur as expeditiously as possible to relieve stress, and provide ample opportunity to find new employment.

If your school shuts operations, the Admission Office can change its focus to work toward helping families locate other

best-fit schools. Also, the HR department should provide career counseling and assistance for job location for faculty and staff.

### Legal Considerations

Winding down the legal aspects may require additional time past the last day of classes, and the Board should ensure that a staff member is retained to handle final business transactions. Either the School Head or the Business Officer could be logical choices for the remaining employee. All Trustees should stay empaneled until the school is entirely and legally closed.

The first step in winding down the legal aspects is identifying all school liabilities. This includes all taxes that are due, all contractual obligations, current debt, and reoccurring future liabilities. Faculty compensation may be considered if the school contracts with teachers are over 10 months but paid over 12 months. Further, if the school is paying severance to employees, include this in the list. Next, determine if current cash and receivables can cover liabilities—if not, sell assets to satisfy them. However, if liabilities exceed assets, bankruptcy may be the best option.

Also, consider all contracts to determine termination requirements. This may include leases, contractual employees, and service providers.

Federal law requires all nonprofits to transfer any remaining assets to another tax-exempt organization. This means your school cannot give away any of its assets to students, teachers, Board members, or other constituents. You are allowed to sell the school's assets—however, you must sell all assets at fair-market value. If anything is given away, it must be to another tax-exempt organization.

The building and property may be the school's single largest asset. If your school merges with another school, giving the facility to that school may be the easiest course. Selling is also an option. However, the same rules apply. The asset must be sold at fair-market value, and the cash proceeds remaining after settling financial obligations must be given to another nonprofit. Consider an agreement with the other school that the assets from the sale of the facility become an endowment for the newly merged school. This would be a wonderful way to help the merged school attain higher viability levels.

The last thing your school will do in the closure process is notify all state and federal authorities. This includes the Attorney General, taxation office, Department of Labor, and state licensing agencies. Further, advise your accreditation body. Last, you'll notify the IRS that the school is officially dissolved its state of incorporation on the final IRS 990.3. (The school will check Box B Final Return/Terminated.)

Deciding to close a school is not a simple decision. But, for some, it is necessary. Closing a school must be done soberly, protecting the well-being of each student. Holding a final ceremony to celebrate the good things the school has accomplished is an excellent way to welcome a new chapter for families, teachers, staff, and donors, and is an appropriate way to say goodbye. I&P

<sup>1</sup> See "Mergers: Scandalous Nonsense or Strategic Alliance?" *Ideas & Perspectives*, 45-7-27.

<sup>2</sup> See "Understanding the Net Promoter Score and Its Correlation to Word-of-Mouth Marketing," *I&P*, 44-12-48.

<sup>3</sup> See "Form 990: A Game-Changer for Strategic Boards," *I&P*, 39-3-12.