

PBPA Podcast Transcript
Lessons from the Flipcause Bankruptcy:
Due Diligence for Donation Platforms

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(26:44 minutes)



[00:00:00] **Sireesha:** In this episode of the PBPA podcast, we take a closer look at the recent bankruptcy of Flipcause and what it means for the nonprofit community. I'm joined by attorney John Mills and nonprofit executive director Erin Campbell, to unpack what happened, how nonprofits were impacted, and the lessons we are learning and have learned. We'll also discuss practical steps nonprofits can take to better protect from similar risks. If your nonprofit organization relies on a third party tool for fundraising, this is a conversation you won't want to miss.

Hello and welcome to the PBPA Podcast. In each episode of the PBPA Podcast, we explore legal questions relevant to Georgia nonprofits. I'm your host Sireesha Ghanta, Counsel and Education Director at the Pro Bono Partnership of Atlanta. PBPA strengthens our community by engaging volunteer attorneys to provide nonprofits with free business legal services. We provide numerous free resources via our website, including articles and webcasts specific to Georgia nonprofits and their business legal concerns. We also provide direct legal services to our clients. For more information on client eligibility requirements, to apply to be a client or to access our vast learning center, visit our website at pbpatl.org. Before we jump into this episode's topic, keep in mind that this podcast is general information, not legal counsel, contact your attorney for guidance on your nonprofits' specific situation.

John Mills is a longtime bankruptcy and restructuring attorney with deep experience in complex insolvency matters. He has served as a partner at several of Atlanta's leading law firms and is chair of the bankruptcy section of the Atlanta Bar Association. Throughout his career, he has also remained actively engaged in Atlanta's nonprofit and pro bono community.

Erin Campbell is the founder and executive director of the Athens Area Diaper Bank. She built the nonprofit from the ground up, scaling a grassroots initiative into high impact regional organization. Erin's leadership has even been recognized at the federal level. Including a US Senate commendation for her service to families across Georgia.

I'm really glad to have you both here to share your perspectives today, especially given how impactful this situation has been. Thanks for being here.

John, let's start by looking at the Flipcause situation. donors came to a website seeking to make a donation to a nonprofit, not a donation to Flipcause or not to give money to Flipcause, but they were seeking to make a donation to a nonprofit. Explain to me, how did nonprofits lose out on all those donations that were made by donors for those nonprofits?

[00:03:27] **John:** Well, the foot causes contracts stated that donated funds were property of the nonprofit, so it was in a sentence in their contract. The sentence after that says, however you assign those monies to us for our use for operations, investments, payments to equity holders, anything. It didn't spell that out. It just said that you , in a 20 page single-spaced , you know, contract, you could miss that. That, they were trying to opt out of what is common law. And in the case of the state of California, where they operated statutory law that says that when put monies that came into

Flipcauses hands through donors was held in trust on behalf of the nonprofits, it was their money net of agreed fees. By that one sentence saying, you assign your money to us for our use and operations and other things. Flipcause tries to stand on that to say, you gave us your money.

And the other part of it is funds were only transferred to nonprofits upon request. So sometimes monies were held for months and, uh, we'll get into it later about. That's not a great idea.

[00:04:43] **Sireesha:** No, no, that's not a great idea. Erin, you experienced this firsthand. Can you share a bit about your story, how you initially chose Flipcause as your donation platform and your journey from there?

[00:04:59] **Erin:** Sure. So we started our nonprofit with our incorporation in 2018. And by early 2019, we had been talking with our other nonprofit friends that were small nonprofits, maybe new on the scene, and just learning how to fundraise dollars and to properly steward those donors.

And, um, we kept hearing the name Flipcause come up and had a couple phone calls with some friends about Flipcause they loved it. It was another diaper bank on the other side of the country from us. They loved Flipcause. And we test drove a few different donor platforms. And Flipcause really attracted us to them because they were whether or not it was purposeful in marketing or just how that phone call, initial phone call went um, they really made a strong case for helping young and new nonprofits.

And it wasn't just the donor management. Side of it and the transaction portal, but it was also our website so they could help us build our website, put all of the donation forms within the website. It felt like a one-stop shop for a little nonprofit who we just didn't have a lot of time and a lot of energy and bandwidth to really have all individual tools for these tasks. So Flipcause felt like a great tool for us.

And it was from 2019 when we first signed our contract with them all the way up till about 20 24 was when the wheels started to come off. So it was going well with them. It wasn't the smoothest looking platform out there. But it worked for us. It was really user friendly on my side. Um, the donor management side was great, so we could look at our donor information, make sure we were thanking our supporters, we could. It was a great tool for us for a few years.

And you know, when I think back to those early days, I remember seeing the contract with them and their terms and conditions, and I read it. I don't remember anything standing out that sentence that John referred to. I don't know if that sentence was in there years ago where they said, well Flipcause reserves the right to have your money. Um, I don't know if it would've even flagged itself to me because this platform was so recommended by a lot of friends. I wish I could have a little time machine and look at those terms and conditions again and print them out to have a hard copy to look at six, seven years later. Um, so it was a great tool for a while, and then it wasn't.

[00:07:47] **Sireesha:** So Erin, it sounds like you did, you did some due diligence. You asked around among your colleagues, you looked at the contract at the time. John for nonprofits who are maybe currently looking at their donation platform and wondering, is there anything I can do to avoid a Flipcause like vendor? What guidance can you share with them?

[00:08:11] **John:** Well, before I do that, two points to make, going back to Flipcause real quick. One is that the sentence that I referred to is the attempt to contract out of statutory or common law, at least with the state of California, is not being recognized as that's not sufficient. You can't do that. You can't use a contract to, to opt out of our statutory scheme that these are to be held in trust. And I suspect that every state would, the country would rule the same way or come down. And it's whether it's from an attorney general or a judge, you know, in some sort of a lawsuit.

The second thing is this was effectively became a Ponzi scheme. And because as money comes in, they're using it for operations, doing it for other things, and then as nonprofits request their money, it would be sent. And that's why that's Erin's experience for years and years. The money is sent, there's no problem, everything's good. And however, once you swell to where you're servicing 4,000 nonprofits and those requests for monies keep coming in. There's not enough new co new money coming in to fund that. And that's what happens in a Ponzi scheme. New money is used to pay off old liability. And this got up to \$30 million, so it was a pretty substantial uh, scheme.

Now for what you can do. Look at your contract. I know Erin said she read it and that sentence didn't stand out to her if it was there at the time. I've just been able to review more recent contract, but review your terms and conditions and just make sure. The main thing is that the donated funds or property of the nonprofit held in trust net of agreed fees.

That's the bottom line: held in trust for the nonprofit. A net of agreed fees.

And also timing of disbursements. There should be an rather than you, the nonprofit requesting the money should be distributed either immediately upon being donated because, with AI and all the computerization that folks can do now that's not an administratively burdensome , activity. And if it's not immediate, is it, every few days a week. But I wouldn't let it go longer than a week. I went back, my wife is treasurer at our church and I asked her what platform do we use and when do we get money? And it's immediately whenever there's a donation made. Uh, the service the church uses is called Breeze, and it, like Erin talks about, is a full service operation for specifically for churches. But they, that money's dispersed upon receipt out of agreed fees. So it's, you get it immediately.

And the see if you have the ability to have eyes on what's going on. Is there a portal you can use to find out what your situation looks like? Can you get your donor information, all of that. And so look at that and then, does the platform claim some sort of a, even though it may be held in trust as a platform claim, to have some sort of a lien on those funds? For some purpose possibly to, a lien, to secure payment of agreed upon fees. That's a bad thing. Okay. It shouldn't happen that way. Everything should be done immediately. Fees taken, funds dispersed to the nonprofit, so there's no need for anything like that.

And also, if you terminate the contract for any reason how quickly can you get your money and can you get your donor information?

[00:11:39] **Sireesha:** Now my next question is for you Erin. Based on your experience, do you think this would have helped you? The pointers that John just shared? Of course with the benefit of 2020 hindsight. But was there anything that could have done to minimize the harm of an unscrupulous vendor like Flipcause.

[00:12:00] **Erin:** Yes and no. So the reality is probably 20, maybe late 20 23, early 2024, the transfers in our funds were taking longer and longer. So at first it would take maybe two weeks instead of

seven to 10 days. It would take 14 to 20 business days. But we would get the money and then it would turn into a month and a half. And so over the course of a year and a half, those delays just kept, it kept getting longer and longer, and I believed Flipcause when they would post updates saying, we are so sorry, our third party pro trans ACH transfer processor is having a backlog. So we are catching up and I wanted to believe them.

And I know now as soon as that started to shift and those delays were every single time we requested our our funds, they were delayed every single time. We should have backed out of there probably six to 12 months sooner than we did. The reality though is that our organization, much like a lot of the other small organizations that use Flipcause we didn't have the bandwidth to unload everything from Flipcause and migrate to a new platform. That is a no joke process. Any nonprofit that has done it knows that it is a bit of a slog. It's tedious, it's painful. You know that you're gonna lose recurring donors. Along the way because they have to transfer themselves to your new platform. You have to migrate all of those years of donor information and all of your stewardship activities that has to migrate.

And again, because Flipcause had our website as well, we knew we'd have to rebuild our website. So when this started to happen, we had three staff members and none of us, really had the bandwidth to make that move. And then in 2025, mid 2025, we hired a director of development and I, when we hired her, she's fantastic. I said, this is on our horizon. We need to move. And then it became obvious, we need to do this now. So thankfully, we were able to make a very successful move to give butter, who's been very great and very helpful. And not just the migration, but helping us navigate some of the stress because of Flipcause.

So 2020, I, yes, I wish that we could have moved sooner, but the reality was that I don't even know how we could have done that. We just would've had to figure out how to do it and kind of have other tasks take a back seat, and put that at the top of the list. Which is really hard when you're a small nonprofit. Our mission is to distribute diapers to families that are struggling, and it is, our mission is not to fundraise money, and so it is really hard to shift your attention away from the mission that wakes us all up in the morning and focus on this really tedious task of moving all of our platform over.

[00:15:16] **Sireesha:** Definitely technology transfers or migrations are no easy task. My next question, John, is for you. What might be a little more simple process if we have a nonprofit that's looking to shop for a brand new vendor, a new provider. Do you have any tips for them? If this new nonprofit is looking to sign up with their first platform, what should they be looking for?

[00:15:45] **John:** Well, platforms sell based on fees. Okay. The idea is we're gonna we'll charge fees for, when we process a donation transaction, they may charge other fees for doing what Erin talked about. They may help build a website, whatever it may be. I think smaller or startup nonprofits would be attracted to. Something that would give sort of a full package and we'll process your donations we'll and and remit them to you. We'll help you build your website. We'll keep track of your donor information, all of that, and all of that's fine.

And you should look for that. And but gotta look at that contract again. I'll go back. Held in trust for the, uh, nonprofit net of fees. Okay. That's the magic language. It, or something functionally like that.

Now, you can't negotiate the terms of these contracts generally, because they're called adhesion contracts. I know that sounds harsh adhesion, but what it is a, a platform's gonna have hundreds or thousands of customer. And so you can't administratively keep up with subtle changes in each of the contracts if requested. So you have to live with it. It's probably gonna be a non-starter. You can always ask, but I doubt anyone would allow you to do it for the reason I talked about. So if it doesn't have what you want, then move on to the next one.

But if they should process the payment. Send the donor in acknowledgement, send you the donor information. Also retain the donor information for you to access. And never hold the money for an extended time. And I only extended time, maybe no longer than a week. And when, and when I say a week, I mean they give it to you. Like within seven days after it's, whatever's accumulated gets related to you seven days, not you request it and then, seven to 10 days later it's given to you immediately. It should be given to you. And that's what the contract should provide. You don't want 'em to hold this.

A tie into a customer. CRM you told me, Sireesha the "customer relationship management" system, if there's a, if there's a tie to that's great because you can keep track of your donors that way and access it.

The other thing :. "Eyes on". What kind of access do you have to the information? Like for example, can you check on a Wednesday? Let's say they're gonna send you money on Friday, but can you check on Wednesday to see where you are? Like, let's say you've just run a funding campaign, you've had a gala. A lot of, nonprofits have some sort of an event, a dinner or something like that. Can you check on how that accumulated? And get eyes on everything? And if you can't do that's a problem. It should be very transparent.

[00:18:12] **Sireesha:** And now, let's look at this a little from the legal side. Can you gimme some insight in terms of what was happening on that front? And John, can you share a little bit about what happens to a donation platform if and when they become insolvent or file for bankruptcy?

[00:18:33] **John:** What happens is under the bankruptcy code, all legal and equitable interest of a debtor and property become property of what's called an estate. When a something like Flipcause files, it creates what's known as an estate in bankruptcy, whether that's a reorganization case under chapter 11, or it's a liquidation case under chapter seven. It's the same for everything, and if. The funds, held on behalf of the nonprofit, whatever in their hands, in the hands of the nonprofits at the time of the bankruptcy filing is that's clearly delineated as property in the contract as property of the nonprofit net of fees.

Then that will not become property to the estate and the nonprofits involved can ask if those funds to be turned over to each of them. Okay. And a bankruptcy judge will allow that. You may have to, it should happen automatically. The the nonprofit should, ask the bankruptcy court's permission to send that money to the nonprofits. And I think that would be granted immediately.

If not, nonprofits will have to make what's called a turnover motion. In this case, it would just be a perfunctory kind of ministerial act to file a quick motion and say, judge, we'd like an order that the funds be turned over.

As it descends into insolvency, it's important that you understand that again, that's always your money. It's always a nonprofit's money and any of that, if a nickel of that is spent on something else,

it's stealing. And it creates criminal liability for the operators in the nonprofit, particularly the higher ups the officers. It could have, it could create criminal liability for staff. Depending on what they know about, how these, how this money should be handled. So that's a powerful disincentive, shall I say to use the funds in inappropriate manner to misappropriate them. Most folks don't wanna go to jail over this.

The other part of it is, if the nonprofit is using a federally insured institution to deposit money, then you know the deposits in those in accounts would be you insured up to , I think it's the \$200,000 cap by the FDIC. That's not much comfort in a case like Flipcause if they, because when they filed, they had \$70,000 in cash. Owing \$30 million to nonprofits.

But what it is mainly, it's a sign that they're on the up and up. Because banks have regulators who insist that these regulations be followed. And banks are always on the lookout for suspicious activity, that's required. And so a federal insured institution is gonna. Have eyes on accounts, even if it's through an AI or a computerized process, an algorithm to see, what's happening. And if there's a suspicion of any kind of untoward activity, then the federal insured institution will freeze it, freeze the account until an explanation is given as to what the activity's about.

[00:21:41] **Sireesha:** Oh, interesting. Maybe one day donation platforms will end up in that same realm of regulation.

[00:21:47] **John:** I can give you one quick example of it. As you know, uh uh, cannabis is legal in California, Oregon, Washington, and Colorado. There are a lot of, we'll call okay, platforms in California and they're operating legally under state law. Who funds they generate are legal under state law, but however they put that money into Wells Fargo. Wells Fargo's a federally, you know, chartered institution, and it's illegal under federal law. So what'll happen is if Wells Fargo finds out, sometimes they don't ask, well, we're just a business, we're farming or whatever.

And if Wells Fargo gets a whiff of the idea that, although you're operating legally under state law, and the funds you've generated are legal under state law. You're doing an illegal activity under federal law. You can't keep our money in your bank. You can't keep your money in our bank anymore. And they'll freeze it and say, figure out where you wanna go, and go to a state chartered institution.

So that's what happens. But they keep eyes on these things to make sure they're in compliance with what they're supposed to do. But they also have to, again, like I said, keep track of suspicious activity. So if they, and they're pretty diligent about it.

[00:22:56] **Sireesha:** So maybe pros and cons or just another level of complexity when you're with under those regulations. Now, Erin, do you have any closing words based on your experience, not just as a Flipcause customer, but also as a leader of a small nonprofit?

[00:23:13] **Erin:** Sure. I think first of all, we should all just chase that spidey sense, right? As soon as something is feeling a little off with our fundraising platform, we need to chase down the source of that ick that we feel with them. And it's not just that the funds are there for us to execute our missions, but it's also there as trust from our community and our donors.

And so it wasn't just our funds that were, that have disappeared with Flipcause. But one of the biggest stressors has been the question of whether or not this has affected the trust that our donors feel with us, right? Because these donors were intending to donate and help us with our mission, and we didn't get those mon that those funds. So I would say follow that spidey sense. Chase it down. If something doesn't feel right, dig in and keep digging until it's resolved.

Um, I would also say to all of the other nonprofits that are affected by Flipcause I encourage us to give ourselves a little bit of grace. Because we did the due diligence, things were going well and it, the potential criminal activity. I'm not a lawyer. I don't know if I can say that, but the activity that happened, um, wasn't supposed to happen and it is not our fault that there were some bad actors in this situation. So I do think we need to give ourselves some grace. It's been very stressful. And so I just encourage everybody to give themselves some grace, and I hope that all of our communities and supporters extend that grace to us as well. This has been a tough time.

[00:25:02] **Sireesha:** And I do also hope that everyone extends grace to the victims of the Flipcause situation, I appreciate you both being here to share your expertise and lived experience on this important topic. And I hope this information is helpful for nonprofits out there who are either going through this themselves or just kind of reevaluating their current vendor based on what has happened. And there's certain steps that you can take to minimize risk. But even after taking all these steps, which we hope you do, it's not possible to avoid any and all situations, especially when you have wrong doors like in the Flipcause situation. But John Erin, thank you so much for being here today.

[00:25:55] **John & Erin:** You're welcome. Thank you so much.

[00:25:59] **Sireesha:** We hope that you found this episode of the PBPA Podcast to be informative and helpful. We add new episodes every month with short conversations about general, yet important legal information for Georgia nonprofits. Remember that this is not legal counsel. Talk to your attorney about your organization's specific concerns. Thanks for tuning into the PBPA Podcast. And to all nonprofits listening out there, thank you for all the good work you continue to do in our community.