

Transcript: 990 Tax Forms for 501c3s

- Announcer: Welcome to Civil Discourse. This podcast will use government documents to eliminate the workings of the American government and to offer contexts around the effects of government agencies in your everyday life. And now, your hosts, Nia Rodgers, Public Affairs Librarian and Dr. John Aughenbaugh, Political Science Professor.
- N. Rodgers: Hello, and welcome to today's episode of the podcast. Aughie is off selling seashells by the seashore. Today, we have Patti Sobczak. She is the collection librarian in the areas of public affairs, political science, and business here at Cabell Library, Virginia Commonwealth University. She also has extensive experience in development and non-profit interests. She used to teach in the non-profit program here at VCU, and she is going to talk to us all about non-profit. So hello, Patti.
- P. Sobczak: Hi Nia. Thanks for having me.
- N. Rodgers: So, you're not going to be thankful in a few minutes when I started asking you questions.
- P. Sobczak: I'm worried.
- N. Rodgers: But it's good that we're starting off that way.
- P. Sobczak: Yes.
- N. Rodgers: So, the document ... We always in this podcast, we attach a document to the discussion. And so, this time, we are attaching a 990 and a 990 is the tax form that organizations fill out.
- P. Sobczak: Yes.
- N. Rodgers: That non-profit organizations fill out.
- P. Sobczak: Yes. They have to fill it out.
- N. Rodgers: And so, my first question out of the gate is ... Oh, sorry. We will link to that from the research guide as we do with all the other documents from the podcast. So, my first question out of the gate is what constitutes a non-profit?
- P. Sobczak: Well, actually a non-profit ... The US defines a non-profit in a tax law laid down by the IRS. Surprising to a lot of people, a non-profit can actually earn a profit more accurately in operating surplus. But the difference between that and a for profit company is that the profit must be retained to invest in the organization and not disburse to tax holders.

N. Rodgers: To tax hold ... Or shareholders.

P. Sobczak: Share ...

N. Rodgers: Oh no, that's okay. We say stuff all the time here.

P. Sobczak: Yeah.

N. Rodgers: So, they can have shareholders, but they can't give them money.

P. Sobczak: True. They can have-

N. Rodgers: Okay, that's weird.

P. Sobczak: Yeah. But that's-

N. Rodgers: But that's what separates them from the profit, correct?

P. Sobczak: Yes. For profit, yes.

N. Rodgers: Because I was wondering, I mean I'm not trying to be rude here, but the Catholic Church is listed as a non-profit and if one said that the Catholic Church did not have assets, one would be completely insane.

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: Because it has many, many, many assets.

P. Sobczak: Absolutely.

N. Rodgers: The buildings, the property, there's stuff. I mean they have a library that's full books that are ... there's one of which is priceless and there's no way to actually price that.

P. Sobczak: Absolutely.

N. Rodgers: So they're allowed to have all that, if they sold it, they'd have to put the money back into the church?

P. Sobczak: Into the organization, yes.

N. Rodgers: Okay. All right. So-

P. Sobczak: They can't distribute it to shareholders.

N. Rodgers: So there's this mystical term, this 501(c)3, and the only reason I know that term is because I belong to one, I belong to a non-profit organization and that's what they call themselves. They call themselves a 501(c)3. Is that in reference to some specific thing, that number and letter and number combination?

P. Sobczak: Well, actually, it actually is a type of non-profit, and the majority of non-profits that are able to receive tax-deductible contributions actually fall into this category. And some of the tax of organizations include educational organizations, religious like you just mentioned, charitable, scientific, literary, testing for public safety and fostering certain national, international and amateur sports competitions.

N. Rodgers: Oh so, the Olympic Committee is a non-profit?

P. Sobczak: Yes.

N. Rodgers: Oh. Where do they get the big gold medals then? Oh, well, no. Because you said they can make money.

P. Sobczak: They can make money.

N. Rodgers: They just have to put it back into ... And I assume that those medals are part of putting it back into the organization.

P. Sobczak: I would say that's probably true, yes.

N. Rodgers: Okay. So 501(c)3 refers to some part of the code. Is that what it does?

P. Sobczak: Yes, absolutely. Actually, there are over 40, or, excuse me, 30 IRS non-profit designations but the 501(c)3 is the most prominent. And then, actually, it's broken down into two categories. There are public charities such as like a community foundation or the SPCA. They are ... because they-

N. Rodgers: Because we love dogs.

P. Sobczak: I know, we love animals.

N. Rodgers: Oh, and cats. I mean I didn't mean to be cattist. And we love all animals.

P. Sobczak: We love all animals. But also, there's private foundations and that would include the Clinton Foundation. The Bill and Melinda Gates Foundation, those are private foundations.

N. Rodgers: The Ford Foundation. They give away a lot of money ...

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: ... or things to improve, theoretically, to improve the world.

P. Sobczak: Yes.

N. Rodgers: One could argue that, whether what improvement means but we're not going to do that. Not at this juncture.

P. Sobczak: We're not going to debate that today.

N. Rodgers: Excellent. Because we don't want to deal with that.

P. Sobczak: No.

N. Rodgers: So, when you have a private foundation ... I have a quick question about that.

P. Sobczak: Okay.

N. Rodgers: A lot of times, they're named for a person. You just mentioned the Clinton, you mentioned the Gates, I mentioned Ford, which was, I think, the original Ford Children.

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: Like the first Ford children.

P. Sobczak: I believe so, yeah.

N. Rodgers: So they're often named for a person.

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: Is that because that family just has ginormous amounts of money and they make a foundation to give it away?

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: Like that's ...?

P. Sobczak: Oftentimes, that's the case. Sometimes, you don't have to have a lot of money to do that. Sometimes, you just have a philanthropic thread in your body, and you want to do that. And so, even if you have a modest amount of money, you can still start a foundation. If you have causes that you really want to donate to.

N. Rodgers: Aha. So, let's just say we wanted to create the Nia-Oggy Foundation for podcasting, right?

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: So we could do that, and we could pull our \$8 and 12 cents that we have and then, we could ask other people to give us money ...

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: ... and then, we could support podcasting for the masses or some other things?

P. Sobczak: That is absolutely possible.

N. Rodgers: Okay. So, that's a cool thing. Is that a good way to also not have to pay taxes on your money and that sort of thing?

P. Sobczak: It can be a tax shelter as well.

N. Rodgers: Okay. So, people who give to those foundations, a lot of times, they're doing that ...

P. Sobczak: Those are charitable foundations.

N. Rodgers: ... if that's a pre-tax sort of a thing?

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: Okay.

P. Sobczak: Yeah. They're tax-exempt.

N. Rodgers: Let's just say that Oggy and I wanted to make the Nia-Oggy Foundation of Awesomeness, that's what we're going to call it, the Nia-Oggy ... And we're going to put my name first, dang it, because not here. Even though alphabetically, that's totally incorrect. So, I've already chosen a name. This is me. I've chosen a name. We are going to call it this thing, what happens next? What's next?

P. Sobczak: Well, there's actually several steps to set up a non-profit of sort.

N. Rodgers: Of course, there are. Are there regulations ...

P. Sobczak: Yes.

N. Rodgers: ... are there laws?

P. Sobczak: There's laws.

N. Rodgers: Of course.

P. Sobczak: Regulations and lots of obstacles. So it isn't for necessarily the faint of heart if you want to do that.

N. Rodgers: Oh, okay. I'm pretty faint of heart, but he's not. So ...

P. Sobczak: So the start is actually to choose a name. And then, you actually have to file the articles of incorporation as a non-profit. And then, you have to file for your IRS tax exemption. And there's actually a packet, a 1023 that is actually application for recognition of exemption.

N. Rodgers: So, you said we have to file articles of incorporation. Is there a particular place we have to do it? Can we do that here in Richmond or do we have to go do that in D.C.? Is there a small town in Wyoming where everybody has to incorporate their non-profit, or it doesn't matter? You can do it from wherever you want.

P. Sobczak: Whichever you want to be, you can actually get all the documents online.

N. Rodgers: Oh, okay.

P. Sobczak: To do this, yes.

N. Rodgers: So you don't have to be in some place specific?

P. Sobczak: Not necessarily.

N. Rodgers: That's good. So, if we're in Richmond, we don't have to travel to D.C. to do that?

P. Sobczak: Right.

N. Rodgers: Okay. Good.

P. Sobczak: And then-

N. Rodgers: Also, we don't like D.C.

P. Sobczak: Yeah.

N. Rodgers: Please, if you're listening in D.C., that's not what I mean. But if you've driven up 95 on a Friday afternoon, it's not a pretty thing.

P. Sobczak: No. If you drive up 95 any afternoon, it's not a pretty thing.

N. Rodgers: Well, that's true. I don't know why I picked Friday.

P. Sobczak: Yeah. Let's be serious here.

N. Rodgers: Okay. So, what next?

P. Sobczak: Well then, you have to actually apply for state tax exemption. So, there's the federal part of it and there's also the state part of it. There's some states that are more friendly towards this. And if you ask me exactly what states, I couldn't tell you, but I think Delaware is one of them where you file your papers as part of that. I don't know all the rules around that. But there are some states that are more favorable for this kind of thing. And so, it's worth investigating, though you can file them in any state.

N. Rodgers: I've heard that Delaware is a place where a lot of people incorporate, and I assume that would be profit and non-profit.

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: For sort of friendliness reasons.

P. Sobczak: I think so, yes.

N. Rodgers: And there's probably different regulation or friendlier regulation there ... Excuse me ... than there are in other places.

P. Sobczak: Yeah.

N. Rodgers: Okay. So, it's something you'd want to research before you start it. Okay.

P. Sobczak: Absolutely. And then, you actually have to draft by-laws. If you've been part of a non-profit, so you know that they can very small and limited or they can be rather extensive because they kind of spell out how this non-profit is going to work. The things that they're going to be focused on. And then, they have a structure involved such as appointing directors. If you have a non-profit, you have to have actually a board of directors.

N. Rodgers: Really?

P. Sobczak: Yes.

N. Rodgers: Can your board of directors be, oh, I don't know, me and Oggy?

P. Sobczak: But it usually have to have more people than just the two.

N. Rodgers: Oh, okay.

P. Sobczak: Because this is a decision-

N. Rodgers: Because we could do terribly bad things if we just ...

P. Sobczak: Perhaps.

N. Rodgers: ... just decided to sit around and eat pizza and drink beer one night and give our money to bad thing.

P. Sobczak: Right. Yeah.

N. Rodgers: Okay. So that prevents you from making public mistakes with your money?

P. Sobczak: Right. At least it gives you a way of kind of monitoring the activities, and then, you actually have to hold meetings for this board of directors and you actually have to record that you've had meetings and you have to have minutes from these meetings. So you have to have documentation. So, that's kind of scary, huh?

N. Rodgers: So Oggy ordered the pizza, Nia ordered the beer. They decided to do this thing, it's not sufficient minutes probably.

P. Sobczak: Probably not.

N. Rodgers: There have to be more people in the room?

P. Sobczak: Yes.

N. Rodgers: Okay.

P. Sobczak: Yes.

N. Rodgers: And they would have to say things other than, "Hey man, pass me another beer," and "I'd like another slice of pizza"?

P. Sobczak: Something a little bit more than that. And then, actually, within jurisdictions, there are licenses and permits. So, again, depending on where you formed the non-profit, each state, and then, each county has different licensing and permit laws.

N. Rodgers: Whoa, down to the county level.

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: Okay. So, can you be a federal non-profit but not a non-profit within a certain state?

P. Sobczak: Usually, a non-profit formulates within a state or a body, so there is a state connection to it.

N. Rodgers: I'm sorry, I didn't ask the question properly. Let me ask it in a different way. So let's say that I incorporate in Virginia and the Feds recognized me as a 501(c)3 and Virginia recognizes me, can I fund-raise in Tennessee?

P. Sobczak: Oh, absolutely.

N. Rodgers: Okay.

P. Sobczak: Yeah.

N. Rodgers: So, once I have that recognition, I'm not tied to my state.

P. Sobczak: No.

N. Rodgers: I can be national, international ...

P. Sobczak: In terms of raising money, absolutely, it's just that you have to abide by the laws of the state that you file in. So, if you file for your non-profit in Virginia, there's Virginia state licensing and permit laws that you also have to abide by. But you can go to Tennessee, you can go to Timbuktu to raise money.

N. Rodgers: But I don't have to do Tennessee's laws?

P. Sobczak: No.

N. Rodgers: I have to do Virginia's laws ...

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: ... because that's who I'm responsible.

P. Sobczak: Because when you file your 990, which we'll talk about in a little bit, it will come out of your non-profit which is registered in Virginia.

N. Rodgers: So, it behooves you to find a good state. Right?

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: You talked about research there at the beginning, it's super important. Because if you can find a good state to incorporate in, I mean as far as laws are concerned, then ... I mean if you find the one that's the hardest ...

P. Sobczak: Right.

N. Rodgers: ... and you do it there, you're just borrowing trouble that you don't need to borrow?

P. Sobczak: Perhaps.

N. Rodgers: Okay. So, if you wanted to do that research, you would need to talk to Patti because Oggy and I can't help you with that. But that's why we have specialists at the library who know all kinds of good stuff.

P. Sobczak: And it's good, I mean like anything ... And being a librarian, I can't help myself, you want to encourage people to do their research, you want them to enter into this ... It's not, as I said earlier, not for the faint of heart. It really is a very structured environment and you have things you have to do, and if you're not willing to do that, then, you probably don't want to go down the path of forming a non-profit. It is, in some ways, very cumbersome, because there is documentation, you have to have these meetings, you have to have board of directors. You have to show why someone is a board of director. You have to actually have some logic around it.

N. Rodgers: Oh, really?

P. Sobczak: Yes.

N. Rodgers: So you can't just appoint your buddies and your best friend, they'd have to actually have some knowledge of whatever the thing is you're doing or financial knowledge or how to be a philanthropist. Sorry, I stumbled on the word there. Okay. So, you can't just like, "This is my pet cat, and it's on the board of director." It has to be more formal than that.

P. Sobczak: Well, it has to make more sense. And think about it, if you really want this to be successful, you want to have talent on this board. You want to have ... If you can get a lawyer, I mean I'm always about kind of diversifying and getting talent, so someone maybe who knows HR laws. Someone who's a lawyer would be really good. Someone who's a fund-raiser would be really good. So, you want to have this array of talent that you can draw upon that's going to be really interested in your cause. So, you want to be kind of choose wisely ...

N. Rodgers: Okay.

P. Sobczak: ... yeah, with that. The cat maybe a, you know.

N. Rodgers: An excellent choice for a mascot.

P. Sobczak: Yes.

N. Rodgers: But not an excellent choice for a board of director, member.

P. Sobczak: Probably. Yes. And remember, all the board of directors' names go on the 990. So it does get out. So everybody can look at that.

N. Rodgers: So Phyllis Rodgers would probably be ... Eventually somebody would say, "Hey, does that mean cat?" Okay.

P. Sobczak: And would they want to give money to an organization that has a cat on the board of directors? Probably not.

N. Rodgers: Probably not. Not rational, smart people.

P. Sobczak: Right.

N. Rodgers: So, that's the other thing is ... I assume the other thing that you use with your board directors, and correct me if I'm wrong here, is they know people, right?

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: So you want people who know people, you want people who are respected in their fields.

P. Sobczak: Yeah.

N. Rodgers: You want people who carry that sort of patina of awesome about them.

P. Sobczak: Mm-hmm (affirmative), right.

N. Rodgers: Because it will shine on to your organization.

P. Sobczak: And you're going to be able to raise more money and you're going to be able to get into circles you might not be able to through your own associations, but having your board of directors, they should be like your circle of ambassadors and they should be out spreading the good word about your non-profit and bringing in people as volunteers, to raise money, to come to events, all on this idea of raising money to support your non-profit.

N. Rodgers: Okay. So, if you can find a celebrity who likes your cause, that's super helpful because-

P. Sobczak: That can help, not necessarily going to jail or something, probably not.

N. Rodgers: Well, yeah. The celebrity for the right reasons.

P. Sobczak: Yeah.

N. Rodgers: Not for the wrong reasons.

P. Sobczak: Exactly.

N. Rodgers: But sort of well-respected or celebrated person would also help with that.

P. Sobczak: Yeah. Absolutely.

N. Rodgers: So, we've got some work ahead of us because I don't think we know any celebrities.

P. Sobczak: I'm sure you can do that.

N. Rodgers: That's okay. We'll figure it out. Oggy knows everybody. He may know a celebrity. It wouldn't surprise me if he was like, "Oh, I'll just call up Heidi Klum and ask her to come over," because that's just who he is. Can non-profits stop being non-profits like can you lose your non-profit status?

P. Sobczak: Actually, you can, and one of them is not filing your 990. So again, we're going to talk about that more in detail, but it's kind of like if you as a individual don't file your taxes, after a while, someone figures out that you haven't filed your taxes in 18 years and they're probably going to be knocking on your door.

N. Rodgers: So that's another thing is you have to hire a person who does that for your organization, who's ...

P. Sobczak: A treasurer.

N. Rodgers: ... going to do a good job.

P. Sobczak: Accounting.

N. Rodgers: And make sure that it's done properly.

P. Sobczak: Yeah. You always want to have access to people that really know the laws and the laws change. So, having someone that got their accounting degree in 1962 is great, but if they're not keeping up with everything, you want people that have this current knowledge because you want them to bring it back to you and say, "Hey, this year, we have to do such and such." So, you want to always have that very current expertise.

N. Rodgers: And part of the money you may be spending on your organization is staff development, is sending those people to conferences or sending them to classes that help them stay up on that sort of thing. That's a legitimate use of the money, right?

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: That's a legitimate use of the money that you raised.

P. Sobczak: Right. And also, you can pay your board of directors a stipend to serve. So, you serve on my board, you get a thousand dollars every time you show up at a meeting four times a year or something, to give them incentive to come and participate. But also, it gives them cache. People love to put on their own resumes that they're on such and such a board because it looks good on their resume as well.

N. Rodgers: Okay.

P. Sobczak: Yeah. So, it's a win-win. It can be a win-win.

N. Rodgers: Are there other reasons that you can lose a non-profit status?

P. Sobczak: Actually, there's a lot. Another one is the failure to pursue the activities stated in the original application which is why you have to put-

N. Rodgers: So we raised lots of money and we don't give any money for podcast, we just drink a lot of beer and eat a lot of pizza.

P. Sobczak: Absolutely.

N. Rodgers: We're going to eventually get in trouble for that.

P. Sobczak: Probably, someone will eventually catch up with you. The other one is actually a non-profit doing political campaign activity can cause problems.

N. Rodgers: So PACs are not non-profits then?

P. Sobczak: No.

N. Rodgers: Oh. So, they're listed in a completely different way with the government.

P. Sobczak: Absolutely.

N. Rodgers: Let's say you're a church and you're campaigning, that's a no go?

P. Sobczak: That's a no go. And also, lobbying can get you in to trouble.

N. Rodgers: Okay. Do you get a warning or did they just say, "That's it. You're done."

P. Sobczak: Well, I mean-

N. Rodgers: How does work? Is the investigation sort of a, we just call you and say, "We see you and you need to knock that crap off," or in the case of your 990, like if you didn't file your 990 and then, you said, "We're really sorry. Here's our 990 in ..." what, July or August or September, is there mercy in the system?

P. Sobczak: There is. And you'll never get a phone call, you'll always get a letter. And it's just like, you never ... When you see a letter that comes in the mail with IRS on it, you know it's probably not good news.

N. Rodgers: Yeah, but you should open it.

P. Sobczak: Yes.

N. Rodgers: Please listeners, you should open it and read it.

P. Sobczak: Open the letter because ...

N. Rodgers: Because ...

P. Sobczak: ... it will tell you ... Most of the time, if you haven't filed your 990, they may ask you to cease and desist and that you can't continue your non-profit until you do the proper filings or if they find, if they say, "We have evidence to show," or "We believe that you are doing activities that are not stated in your organizational by-laws, then, we..." so, you can actually do it here. I mean there's all kinds of things that can happen. Sometimes, you can solve it by filing the 990 and sending them a check, I mean it could be that easy, or it could be as complex as actually going in and having a hearing with the IRS to dispute ... If they're saying you're doing something, you dispute it, so you actually end up going ... It's illegal situation. It's pretty common-

N. Rodgers: So there's investigators and there's a ...

P. Sobczak: Absolutely.

N. Rodgers: ... basically probably something sort of like a court in the sense that there's a person who does the arbitration and [inaudible 00:19:35]to both sides and then, says ...

P. Sobczak: Yeah.

N. Rodgers: "Oh, you didn't file a 990, we can't help you," you have to do that, it's part of the law.

P. Sobczak: And that's easy because there's evidence, so they can ... You don't have-

N. Rodgers: Right. And harder for the ... if you haven't been doing what you said you were going to be doing.

P. Sobczak: Right.

N. Rodgers: I mean if what you're doing ... And I suppose there are some exceptions in the sense of like let's say that you're a non-profit that deals with disaster relief and there's, thanks goodness, no disaster this year, you couldn't do the thing. So, if you just went in and explain that ...

P. Sobczak: Right.

N. Rodgers: ... you probably would be fine. They would probably say, "That's fine. Good on you because there's no disasters. That's great."

P. Sobczak: Right.

N. Rodgers: And then, you would just continue to keep doing what you're doing.

P. Sobczak: Well, what that brings up is a good point about when you do, when you file your original application is to not limit your scope so much that you limit your ability to do a good work. So, if you say we're only going to respond to disasters that kill more than 50,000, then, you're limiting your ability to go out and help people. If you make it broader to say any natural disaster or any man-made disaster, and you don't put a number of how many people have to die or how widespread it has to be ...

N. Rodgers: Or location.

P. Sobczak: ... or location, then, you give yourself that ability to do-

N. Rodgers: So you can go ... And whether it's a small tornado, and unfortunately, three people lost their lives but there still needs to be ... The community is [inaudible 00:21:00] devastated.

P. Sobczak: Well, think of Alabama recently.

N. Rodgers: Right. And so, you need to go, and then, be able to do that. Well, okay. I see. So, writing the by-law is pretty important as far as ... So I don't know, my guess is here that you would say I need to research that a little.

P. Sobczak: Mm-hmm (affirmative). And really-

N. Rodgers: Can I see other people's by-laws? Can I look at similar organizations? Do most of them have them in a sort of public [inaudible 00:21:23]?

P. Sobczak: Yes and no. Some do and some don't. For your organization that you were talking earlier, I'm sure you could get to see the by-laws. They're not necessarily published anywhere in a normal sense, but if you know a non-profit, you can probably get access to some.

N. Rodgers: But when you're talking about scope, you're also talking about their mission, right?

P. Sobczak: Right.

N. Rodgers: So, you could see their mission. Almost all of them give you their mission statement, right?

P. Sobczak: Right. Right.

N. Rodgers: Which is that sort of broad ...

P. Sobczak: Because they're trying to track donors.

N. Rodgers: ... generic thing that you might want to use to start writing your by-laws saying, "We want to help all people in terrible circumstances every day of the year," that kind of thing.

P. Sobczak: Yeah, look at the Red Cross and you can start there, right?

N. Rodgers: Yeah.

P. Sobczak: I mean their mission ...

N. Rodgers: I can imagine there's this pretty broad ... Okay.

P. Sobczak: But yes, you can get reinstated. Sometimes, it's as simple as just doing the 990s that you've missed and getting up to current, and then, you can now continue your work. And then, again, if you get gig or get in trouble for doing things that aren't in your original application, you can say okay, it might be as simple as writing a letter to the IRS saying, "Okay. We're going to cease and desist that activity," "We're only going to do that," and they may monitor it.

So you can get reinstated into the level and to the degree of how big the hammer is with the IRS. I mean I've been audited so I can tell you they have a big hammer, sometimes, for a tiny little nail, but you know, I think the real words of wisdom are just don't get in trouble. Don't give the IRS any reason to question what you're doing, so you don't have

to face these kinds of things because it gets messy, it gets expensive and sometimes, it just diverts your whole focus on what ... All the good you're trying to do is now trying to solve tax problems, so you don't want to do that.

N. Rodgers: So, it comes back to hire good people and make sure they have the ability to do the job and ...

P. Sobczak: Right.

N. Rodgers: ... the access to whatever it is that they need to do the job.

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: So, what the heck's a 990 ... Is a 990, does it look like my 1040-EZ?

P. Sobczak: Kind of, yeah. It resembles a tax form and you'll notice the boxes and the way that it tallies things, it looks very similar to a 1040 IRS form that you would fill out as an individual. It does have a lot more information on it. It has things such as you have to list all of your assets and liabilities and accounting information, how much money did you bring in, how much money did you spend. You actually have to show the salaries of the top people.

N. Rodgers: Really?

P. Sobczak: Yeah. So, if you have an executive director, you have to show what they make and then, the high level executives in the non-profit, you have show what they make.

N. Rodgers: Which is a good thing to research. Just as a side note, if you're going to give money to people, I mean we can reverse this in the whole ... If you're not making a non-profit but you want to give money to a non-profit, doing the research to understand how much is going to administrative cost, because that can be a very large part of the money, in which case, they're not doing as much with your charitable donation as you might like.

P. Sobczak: Yeah. And what I will say about that is one ... There's a big debate in the non-profit community about how much executive director should make. There was a big stink a few years back. I forget the charity that hired a very talented executive director and they were paying him \$600,000 and everyone was like, "No one should make that kind of money" yet, my comment is if they're able to bring in \$50 million, that 600,000 pales in that ability. If they have the connections and the ability to do that, then, they're worth their money. So, you have to not just look at the salaries as numbers just by themselves, you have to look at them in respect to what the charity is doing. How much money they're bringing in. Who's on the board.

I mean it's an entire picture. Individual pieces of it are not going to tell you the whole story. You really have to look at it in total. And that's what the 990 allows you to do is to look at all these pieces and kind of tell the story of this non-profit because it has the charity status, is it a 501(c)3, the mission, the program information. If you talked about pay for top staff members, the trustees, outside fundraisers, if you're using a contract service, independent contractors that may be write grants or something, the fundraising cost. You know, my bias, I hate events. I probably shouldn't say this out loud. I think there's this tendency for not-

N. Rodgers: Fundraising events you mean?

P. Sobczak: Yeah. There's a tendency for non-profits to want to have events and I just really bristle at that only because events take up so much time and money and personnel and volunteers, and I always look opportunity cost. So, if you're having this gala that brings in \$100,000 but it cost you \$75,000 to put it on, you're only netting \$25,000, yet, you've spent six months of time and energy and capital and volunteer time to put something, to do something that is ... Sometimes, the events cost more than they bring in and yet, you'll see all the time, there's such a push within non-profits to do events. When I was in the business and I was a fundraiser, I would always say, "We have to be clear why we're doing this, and what we hope to get out of it before we even start."

N. Rodgers: Can I push back a little?

P. Sobczak: Yeah.

N. Rodgers: So, as a person who has been invited to a couple of events, because I am well-acquainted with the individual who takes me to things as her buddy, and for that, I am very grateful. I've been to a couple of these events and part of what I perceive them for is to reward the people who give you money, right?

P. Sobczak: Yes.

N. Rodgers: There does seem to be some level of that, and as long as you're not spending a huge amount, I see what you're saying about this sort of return on investment really, how much we're putting in, versus how much we're getting out. But sometimes, what you're getting out is goodwill. So, I imagine that some events are probably a good idea because it gets people the sort of warm, fuzzy where they all sit in a room and say, "Aren't we fabulous? We gave money to this organization."

P. Sobczak: Yeah, thank you events and recognition.

N. Rodgers: We love us kind of things, which I think is not necessarily a bad thing. That's the only way that I would ... have ever met some of the people at NPR that I like is through my friend's contribution to my being able to go.

P. Sobczak: Absolutely.

N. Rodgers: She gives the money and I get to go, which is awesome.

P. Sobczak: It's a great friend.

N. Rodgers: That's the way to work ... That's the best kind of friend to have.

P. Sobczak: If you can't go some time, I want to go.

N. Rodgers: Okay. But those events, they're not huge key. They're relatively low key. I mean they don't do champagne, caviar kind of things but they do bring in people from NPR or people from WCBE and they show you things, like a couple of times, she's taken me to documentaries that they've shown ahead for the people who've donated. They didn't have a huge spread, they didn't spend a lot of money, but it was a nice event and I watched people be excited about giving their donation.

So, that does seemed to be a good reason. But I can see where you're saying you wouldn't want to do that all the time. It would become old, I suppose, to have those events too often because, then, it wouldn't be celebratory, it would just be obligatory.

P. Sobczak: Well, I think, and I don't disagree with anything you said. My only comment is just be clear on what you're doing. So, I really love events that thank people. One of the greatest way to earn some money is to have an award ceremony. You're honoring someone, I mean they have a national philanthropy day and it's a national event, so all over the country and it's usually through the association of fundraising professionals. They nominate local people as philanthropist of the year and they invite them to come. Well, if they're nominated and/or if they win, they're going to bring their people to see them win. So, when you have someone in Genworth that's winning an award, they're going to probably buy six tables at a thousand dollars each for the luncheon to watch them get their award.

And so, there's ways of doing that that makes sense, and I think that's one that's been highly-successful. I love the idea of thank you events. My only comment is just be clear why you're having the event. Oftentimes, many times, when an event is going to happen, no one can really answer that question and that's my only worry is that if you're holding an events to have an event, that's not a good reason. If you're thanking people, if you're showing a documentary, if you have a purpose and you know what that purpose is and you know who you're trying to attract, that's great.

And also, the other thing about events that is good is that raising money is social, that if you go to an event, I'm sure you have, where you're eating a meal and they have these donation cards on the table, and if someone picks one up and writes a check, many people feel like they need to do the same thing. So, this giving is very social.

- N. Rodgers: Peer pressure.
- P. Sobczak: The peer pressure is very, very social. It's very interesting. There's actually a lot of psychology around it.
- N. Rodgers: I was going say I bet you've studied that.
- P. Sobczak: It's very interesting, and so, that's why you do that and you announce big gifts because it does predicate other people saying, "Oh, if so and so gave 10,000, I want give 12," or "I want to give 15."
- N. Rodgers: I was at a thing with Dr. Robert, he announced a multi-million gift from the Wrights and I think that it must have spurred at least some competitiveness in the room for people who could ... I'm like "I will never be ..." "Would you like my \$50 that I give the university every year?" Right? So, I'm not in that level, that scope of competitiveness, but it was interesting and I wondered why he named the amount and that's why. Because he was thinking if there are other wealthy people in the room who would like to ... And I don't mean compete in a bad way.
- P. Sobczak: Yeah.
- N. Rodgers: I mean there's that, what you're talking about, the sort of peer pressure, sort of, "Oh yeah, I can match ...
- P. Sobczak: Absolutely.
- N. Rodgers: ... your donation," or "I can do it." Which is what they do when they do the spring drive, fun drive on the radio. NPR will say there's somebody who will match your donation if you just call in, that helps them, I assume, because I feel good because now, my donation is essentially doubled. So there's some positive mojo that comes from that. So, I could see that. Okay.
- P. Sobczak: Yeah, there's a lot of psychology and there's a lot of reason to have a lot of people in the room and a lot of people that can give. And sometimes, if someone's on the fence, if they're not really sure and they go to event and they're very impressed and they will give. And the other thing is that people that give large amounts, usually don't start out giving large amount. They give a small amount and they see how they're treated. Are they invited to events, are they thanked, are they treated with respect and dignity, are their wishes being honored, which is a whole another thing about donations and if you get a donation and you don't do what you're supposed to do, that's also a problem.
- N. Rodgers: Oh, that R case, that R case where somebody gave a painting to one of the university. Now, I can't remember it.

P. Sobczak: And I'm blanking too. Yeah.

N. Rodgers: It's not George Mason, it's somebody else. But anyway, they gave a painting and the university sold it.

P. Sobczak: Sold it.

N. Rodgers: And the people who gave it basically said ... basically had account, and with reason, they said, "No, no. We wanted the university to have that painting. Not have the ... We're giving them the money."

P. Sobczak: I think it was William & Mary. I think it was William & Mary.

N. Rodgers: Oh, is it?

P. Sobczak: Yeah.

N. Rodgers: We we're giving them the money if all they needed was some ... Like we wanted them to have the painting, because the painting was important. And they got it back from whoever they sold it from because the donors basically said, "What are you doing?"

P. Sobczak: Absolutely.

N. Rodgers: Except I'm sure they said it with more legalese and that.

P. Sobczak: Yeah, yeah. That's really interesting too, when you give. I mean there was a big case with a Ivy League university and I forget which one it was where a family donated millions and millions of dollars to build the science building and the science building was never built and they sued the university and they won, and there was punitive damages. So, that's the other part is that people may give you money and that's great, but if they have restrictions, they do pledge agreements or they have a ... There's usually a document that goes along with each donation ...

N. Rodgers: Oh, okay.

P. Sobczak: ... and if you both signed it, it's a legal document, and if the charity does not do, if someone has specific needs, I want you to build the science center, I'm donating this painting and it has to stay here until the place burns down or whatever it is, the charity has to honor that, or else, they can get in trouble.

N. Rodgers: Well, and I assume then you get a reputation for not doing what people have ...

P. Sobczak: It's not good.

N. Rodgers: I mean it's just a bad idea all around.

P. Sobczak: It's a bad idea but it happens.

N. Rodgers: Well, I'm assuming that in some cases, like in the case of the painting, my guess is that grandfather gave the painting and 30 years later, the person who is in charge of the painting didn't know that there was a thing.

P. Sobczak: Yeah. The-

N. Rodgers: Or didn't think to check. They were just like, "Great. We can sell this piece of art and buy different piece of art, or buy other pieces or do something else." But it does seem kind of egregious, I'm giving you the money to build this building and you just don't build the building. That seems like ... Well, and if you don't want to build the building, don't take the money.

P. Sobczak: Absolutely.

N. Rodgers: Right? Like that's the way you get around. If somebody says, "I'm going to put such restrictions on this," that it basically ties your hands from doing what you came here to do, then, you say, "Well, thanks. We appreciate that. You should find a different organization to donate to."

P. Sobczak: Yeah. And I always say that sometimes, you shouldn't take the money. I mean I was in a situation where we had ... I worked for a college in California and a large donor, a large organization wanted to give us six-seven-figure amount of money which was a lot of money for a program, but they wanted us to be ... We were in Orange County, they weren't in LA and they expected us to have them be the number one in every sense of the word, in other words, they wanted us to treat them like they were the only donor. And we had many, many donors that needed attention as well and they put such restrictions on that money that we actually turned it down. We said, "Thanks but no thanks. We can't do what you're asking us to do. We can't give you the kind of treatment that you're asking."

And so, we actually walked away from the money. It was really hard ...

N. Rodgers: Well yeah.

P. Sobczak: ... because we can really use the money.

N. Rodgers: Right. You had to walk away from seven figures.

P. Sobczak: Yeah. It was for speech pathology program and it was in starting stages but how they wanted us to treat them was something that we just could not do. We just did not have the capacity or the bandwidth to do and we had to walk away. It was really hard.

N. Rodgers: So your development people really need to understand the contracts and what's being asked of them and if somebody is making a cost of billion dollar donation but they want some crazy weird thing like, "I want you to stop teaching English," you know what I mean?

P. Sobczak: Mm-hmm (affirmative), yeah.

N. Rodgers: Like as a university, we would never stop, we would never just destroy the English department. I don't care how big a gift we got, we would just wouldn't do that because it's not part of, I mean that's part of an education and that's what the university does.

So, we would never take money from an organization even if they said we will fund the university for the next hundred years but you can't have an English department, the university would say, "Oh, thank you, no."

P. Sobczak: Yeah. That's right.

N. Rodgers: They really need to approach a different school because we love our English department. We love our English professors. We think that students deserve to study, I don't know, Shakespeare, whatever it is that they study in the English department, awesome things and we think that that's a valuable thing.

Can I just side note ...

P. Sobczak: Yeah.

N. Rodgers: ... that ... So, one of these things that I went to where I was listening to Dr. [Ra 00:36:53], the people who were sort of, and I don't want to say working in the room because that's not what they were doing. They were being very friendly and they were sitting down at tables where there might be one or two people and sort of getting a conversation going and stuff, like a lot of them were student ambassadors and it seems like having people in your organization come and talk to potential donors about why they like your organization is killer smart because ...

P. Sobczak: Absolutely.

N. Rodgers: ... donors, these donors love to hear student's stories. They love to hear why they're in school and what are they going to do when they get out and why they wanted to study this thing and why VCU as opposed to any other school, right? Because a lot of them went here and they connect on some level of me too, that's how I felt, that's how I felt

when I came here and now, I am sort of heart-warmed. In the organization that I belong to, we did that occasionally. When we would host things, we would have people who had been in the organization for a very long time explain why they liked it.

So do most organizations do things like that? They sort of bring in their long term hard core volunteers?

P. Sobczak: Well, they should.

N. Rodgers: Okay.

P. Sobczak: They don't always-

N. Rodgers: So, it's a best practice for you.

P. Sobczak: It's a best practice to you. If you have an event, again, and you never want someone a guest to walk in a room and not be approached and not be felt like they're welcome and not be kind of introduced to people, and that's the whole idea of the student ambassadors. I mean that's what's great about a university is that there's a lot of student ambassadors. And a lot of ways, you're ... for instance, if you're raising money for scholarships and these are the recipients of that, then, the students have a reason to be there to thank people. But even if they're not directly tied to that donor, they have benefited and they love their university and they had a great experience and so, absolutely.

Having someone in every table that can talk up the organization so it's very strategic, it's very important. Again, that ties it down to events. Why are we having this event. And if we can't staff it properly, if we can't have those people to welcome people, to talk about the organization, to make sure everyone is engaged, then, you're really missing a lot of opportunities in an event.

N. Rodgers: Okay.

P. Sobczak: So, you notice that correctly.

N. Rodgers: It was really nice. And I have to say they came over to the table where I was sitting with the person who brought me, again, I'm not in that caliber on my own yet but I hear you on the ... I mean I have changed my donations over the years as I have seen improvements at the university. I went from zero to where I am now because I believe in that sort of the mission of the university. This university in particular, not because I'm an employee, because I also just like it. But they came over to our table and when they found out that we were librarians, they were just, "Oh my goodness, we love the librarians." It was a really nice, connecting moment for me with these students, who I didn't know individually, but we're so excited about what they were doing.

So, if you do start a non-profit, it seems to me like that's a really good idea, is to find people who engage either on the topic or on the group itself and are able to articulate a good message for you and are sort of outgoing people. I don't know that it would be good to have an entire non-profit of introverts because I'm not sure that anybody would give you money. One of the reasons, I mean Bill Gates is relatively introverted, his wife is not. Bill Clinton is not an introvert in any way. He's extremely extroverted. So, I think that those people seemed to be successful is this idea that you have extroverted people who rule. And that doesn't mean your accountant has to be extroverted because those people hardly ever extroverted. But sort of that feel to it seems to work really well.

P. Sobczak: Well, I have to push back on that ...

N. Rodgers: Okay.

P. Sobczak: ... because I'm an introvert. Okay?

N. Rodgers: And you are a killer fundraiser.

P. Sobczak: I was a killer fundraiser.

N. Rodgers: Okay.

P. Sobczak: Yeah. Because I had-

N. Rodgers: So, I clearly don't know what I'm talking about.

P. Sobczak: No. What I would say is that for me, I mean introverts, it's really how they get their energy. We can have another conversation about that but for me, it was all about purpose and I knew why I was doing what I was doing. I was so clear on that and it mattered so deeply to me that, because of that, it wasn't about me, it never was about me, it was always about the mission. And so, introverts are very good fundraisers because ... And you know why it is? Because they listen. Sometimes, extroverts take over the conversation where really fundraising, really successful fundraising is all about listening and really understanding your donors and understanding what matters to them. And you can't get that when you're talking. You have to listen.

So, introverts actually can make very, very good fundraisers. So, I think it's more a matter of what they're driven by, what matters to them and for me, it was all about the missions, it was all about ... For me, it was scholarships and students and equipment and really elevating the library. It was just really matter to me, so ... And that's, I was absolutely fearless, and I still am, I can call anyone. I may not be the life of the party but I can all anyone any time, I can make a cold call, I can approach anyone any moment and have a conversation with them and I think part of that is because I'm a really good listener.

So, it's really interesting. I think having a charismatic person in charge of the organization is really helpful. I think Bill Clinton is incredibly charismatic. I think that Melinda Gates is much more than Bill charismatic, so I think that's a factor. But really, the bots on the ground are people that are really good listeners, that really observe and watch people. You walk into someone's office for the first time, you look at the pictures on their wall, you see what degrees they have. You see where they went to school. You see if they go fishing or whatever.

N. Rodgers: And if they have 800 pictures of their grandkids and then, you bring that up. You know ...

P. Sobczak: Yeah. It's a point of conversation and you find connecting points with them but the best way to do that is really to listen, to ask a lot of really good questions and make them feel like they're being heard and that's probably the most important lesson I learned is letting people be heard and honoring their wishes and that's part of the job is to do that.

N. Rodgers: Okay. So don't start a non-profit if it's all about you?

P. Sobczak: Yeah. Pretty much.

N. Rodgers: Okay. So, where can you find 990s?

P. Sobczak: The IRS website, IRS.gov. Actually, if you go there, you can ... They have information about 990s and what they are. You can actually get the forms on there but if want to look at a company's 990, unfortunately, it's very, very difficult through the IRS website to find that. You can actually order one now. You actually have to go and order one and they will send you a paper copy and it's nominal fee, \$3, \$5 and it might take month to get it. So, there are other places to go and we will have a link to those such as Charity Navigator, GuideStar that are actually private organizations that have information about non-profits. So you can look on there and get information about a charity.

I also suggest going to the website. I always want to see what-

N. Rodgers: Of the organization ...

P. Sobczak: Of the organization to see, and if you can get the 990, I teach a non-profit class and I always have my students look at the website and look at the 990 and see if there's any discrepancies. That's always an interesting exercise to see what people claim and then, to look at what they really do.

N. Rodgers: Because they're probably not going to lie in their 990s since that's Feds.

P. Sobczak: Really shouldn't.

N. Rodgers: They're more likely to lie or not lie but to fudge ...

P. Sobczak: And-

N. Rodgers: ... to gently [inaudible 00:44:30]...

P. Sobczak: Yes. Yes.

N. Rodgers: ... on their ...

P. Sobczak: On the side of positivity.

N. Rodgers: ... website versus ... I mean in the 990, they're going to put down what they actually owe and what they actually have because they know that that's, if they were investigated as you said before, giant hammer upon them would be painful.

P. Sobczak: Yeah.

N. Rodgers: Whereas if you feed on their website, there's no real law against that. See Facebook.

P. Sobczak: Yes.

N. Rodgers: Where people say all the time that they're 2 inches taller and 40 pounds lighter than they actually are ...

P. Sobczak: And 20 years later.

N. Rodgers: ... and Tinder and lots of other dating and all kinds of, in Instagram where you can manipulate your image to be pretty much whatever you wanted but yes, I always look like a kangaroo. So, that's not illegal.

P. Sobczak: It's not-

N. Rodgers: It might be slightly immoral but it's not illegal. But as far as your 990, if you're not accurate ...

P. Sobczak: You can get yourself in trouble.

N. Rodgers: ... you're in trouble.

P. Sobczak: Yeah. You really create the opportunity for trouble if you're not completely legitimate on your 990.

N. Rodgers: So, that's the true story of an organization.

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: I mean that's the clearest picture you're going to get.

P. Sobczak: Yes.

N. Rodgers: So, if you have a million dollars, listeners, and you don't want to give it to the Nia-Oggy non-profit for podcasting, which I don't blame you because I'm not sure I would give it to us either, we would urge you then to get the 990 of the organization, maybe not just one but maybe for the last few years, right?

P. Sobczak: Mm-hmm (affirmative).

N. Rodgers: And compare that to their website, really investigate them.

P. Sobczak: And their annual report. Usually, non-profits do an annual report kind of talking what happened last year and being a librarian, so this is my headset. I want to investigate everything probably way too much but it is, you have many points that you can look at and I suggest you do that because we all work hard for our money and I put myself on the donor's kind of perspective and I think of why would someone give money to this organization. And so, you have to portray yourself as really being very consistent. So your 990 matches your website and matches your annual report to the best degree possible because you're trying to portray an image and a reputation and then, fulfilling the real goal of the organization.

If you have a mission, actually, go and-

N. Rodgers: Do that thing.

P. Sobczak: Do that mission because you'll be surprised how many times that gets lost in the conversation.

N. Rodgers: Well, and there's a side note, a million dollar to Bill Gates is a hundred dollars to a person who donates that on an annual basis from their regular salary.

P. Sobczak: Right.

N. Rodgers: I mean percentage-wise, if you're giving anything, you should know who you're giving it to.

P. Sobczak: Absolutely.

N. Rodgers: You should know what their purpose is.

P. Sobczak: Absolutely.

N. Rodgers: And there's plenty of ways to find that out. We're going to put links to that. If Patti doesn't mind, we'll attach her email to this particular podcast section in our research guide. So if you did have a question, you can email her and say ...

P. Sobczak: Hey ...

N. Rodgers: ... can you point me to something where I can read about this. Again, we will not provide these things to you. We will show you how to get them for yourself. But like all research that's sent in a library, we don't do it for you. We teach you to fish, as opposed to giving you a fish. Because if we just handed out fish, this building would be really smelly.

P. Sobczak: Yeah.

N. Rodgers: Thank you so much, Patti, for coming today ...

P. Sobczak: Oh, my pleasure.

N. Rodgers: ... and for talking to us about 501(c)3s and non-profits and 990s and all that stuff. If you have any questions about this, again, our email is on that website, and we look forward to hearing from you. Thank you.

P. Sobczak: Thanks, Nia. Bye-bye.

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