

Community Foundation Research and Training Institute

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# Knowledge Nugget #2 – Community Foundation Operations – The Basics

# *Quiz Questions*

1. All funds created by a community foundation must be endowed, meaning that the principal in the fund cannot be spent and only the investment earnings can be used for grants or scholarships. True or false?

*False.* A community foundation has the ability to create either an endowed fund, or a temporary fund, or a fund which is a combination of the two.

1. A community foundation is a qualified 501-c-3 organization, meaning that gifts made by donors to a community foundation are charitable gifts and tax-deductible to the fullest extent allowed by law. True or false?

*True.* A community foundation is a qualified 501-c-3 organization, and all gifts received are considered charitable gifts.

1. What is true about the operating fund of a community foundation?
   1. Because it is used to fund a community foundation’s internal operations, any income received in the fund is taxable.
   2. Federal law requires a community foundation’s annual budget to be approved in advance by the Internal Revenue Service
   3. If a donor makes a gift to a community foundation to help fund their operating budget, the gift is not considered charitable and is therefore not tax deductible.
   4. None of the above

The answer is *d. None of the above*. All of a community foundation’s activities, including it’s internal operating budget, are considered to be charitable. Revenue received is a charitable gift, and a gift made by a donor to a community foundation’s operating budget is fully tax deductible. Finally, while a community foundation reports summary information about it’s operating budget on the annual Form 990 filing, the IRS does not approve the operating budget.

1. Which of the following is true for a component fund of a community foundation?
   1. The board of the community foundation has full legal control of all funds within a community foundation.
   2. Regardless of how many funds a community foundation has, because they are all component funds the community foundation need only file one, single Form 990 each year with the IRS
   3. Some assets on a community foundation’s balance sheet – such as a future gift from a private foundation – are not considered to be component funds.
   4. All of the above

The answer is *d. All of the above.*

1. A community foundation can create a fund which allows the donor to take back the fund if they are dissatisfied with the way it is being managed. True or false?

*False.* All gifts to a community foundation must be irrevocable, meaning that the donor cannot retain the right to take back the gift.

1. A donor creates a fund at your community foundation, and they want to make recommendations from time to time regarding which charities will receive a grant. What is the name of this fund?
   1. Unrestricted Fund
   2. Field of Interest Fund
   3. Donor Advised Fund
   4. Agency Endowment

The answer is c. Donor Advised Fund.

1. A donor has created a donor advised fund, and for several years they have awarded grants to their church, a local food bank and the local animal shelter. Recently, the principal of the local high school has asked the donor to award a scholarship to a very deserving high school senior who needs the money to go to college. Can you approve this scholarship from the donor advised fund?

*No.* According to the Pension Protection Act of 2006, a donor advised fund cannot award a scholarship.

1. Parents of a 16-year-old high school student who died in a tragic accident create a scholarship fund at a community foundation. Each year, in honor of their deceased daughter, they want to select a student at their daughter’s high school to receive a scholarship. Can you create this fund for the parents?

*No.* Unfortunately, you cannot create this type of fund, because the Pension Protection Act of 2006 prohibits a donor from controlling the scholarship selection process. The parents could, however, allow a separate scholarship selection committee to pick the scholarship recipient.