

## Chapter 2 Overview of Financial Reporting for State and Local Governments

### True/False Questions

1. A Comprehensive Annual Financial Report (CAFR) would include an introductory section, management's discussion and analysis, basic financial statements, required supplementary information other than MD&A, combining and individual fund statements, narrative explanations, and statistical section.

Answer: True

2. The three major sections of a CAFR are the Introductory, Financial, and statistical sections.

Answer: True

3. The introductory and statistical sections of a CAFR are **not** audited.

Answer: True

4. State and local governments are required to prepare a CAFR.

Answer: False

5. Combining statements are required whenever a non-major column is used in one of the fund financial statements.

Answer: True

6. A complete CAFR includes combining financial statements to reflect major funds.

Answer: True

7. In addition to the government-wide statements, governments are required to prepare fund financial statements for governmental funds only.

Answer: False

8. In addition to the government-wide statements, governments are required to prepare fund financial statements for governmental, proprietary and fiduciary funds.

Answer: True

9. The General Fund is always considered to be a major fund when preparing fund basis financial statements.

Answer: True

10. With respect to fund basis financial statements, governmental funds are considered to be a major fund when total assets, liabilities, revenues and expenditures combined are at least 10% of the total for the governmental funds category.

Answer: False

11. With respect to fund basis financial statements, a government may only designate a fund to be a major fund if it meets the size thresholds established by GASB.

Answer: False

12. With respect to fund basis financial statements, a government may designate any fund to be a major fund if reporting that fund separately would be useful.

Answer: True

13. When preparing fund basis financial statements, any funds not reported separately are aggregated and reported in a single column under the label *non-major funds*.

Answer: True

14. When preparing fund basis financial statements, any funds not reported separately are reported individually by function.

Answer: False

15. Fiduciary fund statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Answer: False

16. Governmental fund statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Answer: True

17. According to GASB, a primary government can only be a state or a general-purpose local government, such as a city or county.

Answer: False

18. Blending of financial information is done only when component units and the primary government are so intertwined that they are essentially the same.

Answer: True

19. The statistical section of the CAFR contains the combining schedules of non-major funds.

Answer: False

20. The government-wide financial statements present the government as a whole, including component units and excluding fiduciary activities.

Answer: True

21. The basic financial statements of a state or local governmental unit include the MD&A, government-wide statements, fund statements, and the notes.

Answer: False

22. Governmental fund financial statements include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Answer: True

23. Governmental fund financial statements include a Statement of Cash Flows.

Answer: False

24. Governmental fund financial statements include columns for the General Fund and all other “major” governmental funds.

Answer: True

25. The total fund balances reported in the total column of the fund basis statements must be reconciled to the total net assets presented in the governmental activities column of the government-wide Statement of Net Assets

Answer: True

26. Entities which are determined to be component units of state and local governmental units must be discretely presented in the financial statements.

Answer: False

27. The government-wide financial statements are prepared using the economic resources measurement focus and accrual basis of accounting.

Answer: True

28. The government-wide financial statements include a Statement of Cash Flows.

Answer: False

29. Prior-year data is required for government-wide financial statements.

Answer: False

30. The governmental fund statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Answer: True

31. The fiduciary fund financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Answer: False

32. The General Fund is always a major fund for purposes of financial reporting.

Answer: True

33. Notes to the financial statements must distinguish between the primary government and discretely presented component units.

Answer: True

34. Special-purpose governments engaged in business type activities only are required to prepare both proprietary fund and government-wide financial statements.

Answer: False

35. The Government-wide financial statements include separate columns for discretely presented component units.

Answer: True

36. Governmental accounting standards do not require the statistical section.

Answer: True

37. The Government-wide financial statements include a separate column for fiduciary fund information.

Answer: False

38. Management's Discussion and Analysis (MD&A) in The Comprehensive Annual Financial Report (CAFR) is part of the Introductory Section

Answer: False

39. Government-wide statements are to be prepared using the economic resources measurement focus and accrual basis of accounting.

Answer: True

40. Government-wide statements are to be prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Answer: False

41. Prior-year data may be presented but are not required on government-wide statements

Answer: True

42. Prior-year data are required to be presented on government-wide statements

Answer: False

43. Fiduciary funds are required to prepare a Statement of Cash Flows using the direct method.

Answer: False

44. Government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

Answer: True

45. A Comprehensive Annual Financial Report for a state or local governmental unit should contain an introductory section, a financial section, and a statistical section

Answer: True

46. A government may designate any fund to be a major fund if reporting the fund separately would be useful.

Answer: True

47. The Comprehensive Annual Financial Report (CAFR) contains four major sections: introductory, financial, supplementary, and statistical.

Answer: False

48. The fund balance reported in the Governmental Funds Balance Sheet must be reconciled to the total net assets in the governmental activities column of the government-wide Statements of Net Assets.

Answer: True

49. The fund balance reported in the Governmental Funds Balance Sheet must equal the total net assets in the governmental activities column of the government-wide Statements of Net Assets.

Answer: False

50. Fund balance is an account title used only in governmental funds to indicate the excess of assets over liabilities.

Answer: True

### Multiple Choice Questions

51. Which of the following is true regarding the proprietary fund financial statements?
- A) The Statement of Net Assets (or Balance Sheet) reflects equity as contributed equity and retained earnings.
  - B) Normally, a reconciliation is required between the proprietary fund financial statements and the business-type activities column in the government-wide financial statements.
  - C) Statements include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Fund Net Assets, and Statement of Cash Flows.
  - D) The Statement of Cash Flows may be prepared using either the direct or indirect methods.

Answer: C

52. Which of the following is true regarding the fiduciary fund financial statements?
- A) Fiduciary fund financial statements include the Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets.
  - B) Fiduciary fund financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
  - C) Fiduciary fund financial statements reflect equity as reserved and unreserved.
  - D) Agency funds are reported only on the Statement of Changes in Fiduciary Net Assets.

Answer: A

53. Which of the following is **not** considered Required Supplementary Information (RSI)?
- A) Management's Discussion and Analysis.
  - B) Budgetary Comparison Schedule.
  - C) Notes to the financial statements.
  - D) None of the above; all are considered RSI.

Answer: C

54. Which of the following is considered Required Supplementary Information (RSI)?
- A) Management's Discussion and Analysis.
  - B) Budgetary Comparison Schedule.
  - C) Schedule of Risk Management Activities.
  - D) All of the above are considered RSI.

Answer: D

55. Governmental-type funds label the excess of assets over liabilities on the balance sheet as:

- A) Net Assets
- B) Net Fund Balance and Liabilities
- C) Fund Balance
- D) Assets Net of Liabilities

Answer: C

56. In addition to the government-wide statements, governments are required to prepare fund financial statements for which of the following category of funds?

- A) Proprietary funds
- B) Governmental type funds
- C) Fiduciary funds
- D) All of the above

Answer: D

57. Which of the following is true regarding the Comprehensive Annual Financial Report (CAFR)?

- A) The CAFR has three main sections: introductory, financial, and statistical.
- B) Required Supplementary Information includes a Budgetary Comparison Schedule for the General Fund and all major special revenue funds that have a legally adopted annual budget (unless a statement is prepared).
- C) Both of the above.
- D) Neither of the above.

Answer: C

58. Which of the following is true regarding the government-wide statements?

- A) The government-wide statements include a Statement of Net Assets and a Statement of Activities.
- B) The governmental activities portion of the government-wide statements is prepared using the current financial resources measurement focus and modified accrual basis of accounting.
- C) Both of the above.
- D) Neither of the above.

Answer: A

59. Which of the following is true regarding the government-wide Statement of Net Assets?
- A) Discretely presented component units are included in a separate column (or columns).
  - B) Net assets are broken down into three categories: invested in capital assets, reserved, and unreserved.
  - C) Both of the above.
  - D) Neither of the above.

Answer: A

60. Which of the following is true with respect to the General Fund
- A) The General Fund is considered to be a major fund if the combined total of assets, liabilities, revenues and expenses exceeds 10% of the total of all governmental funds
  - B) The General Fund is always considered to be a major fund when preparing fund basis financial statements.
  - C) The General Fund is considered to be a major fund when preparing fund basis financial statements if it bears a financial benefit or burden to the primary government.
  - D) The General Fund is not reported as part of the CAFR.

Answer: B

61. With respect to the preparation of fund basis financial statements, governmental funds other than the General Fund are considered to be major when which of the following conditions exist?
- A) With respect to fund basis financial statements, governmental funds are considered to be a major fund when total assets, liabilities, revenues, or expenditures of that individual governmental fund constitutes 10% of the total for the governmental fund category.
  - B) With respect to fund basis financial statements, governmental funds are considered to be a major fund when total assets, liabilities, revenues, or expenditures of that individual governmental or enterprise fund are 5% of the total of the governmental and enterprise categories, combined.
  - C) Both A and B are required for a governmental fund to be a major fund.
  - D) Either A or B would fulfill the requirements.

Answer: C

62. With respect to the preparation of fund basis financial statements, governmental funds other than the major fund are considered to be major when which of the following conditions exist?

- A) With respect to fund basis financial statements, governmental funds are considered to be a major fund when total assets, liabilities, revenues, or expenditures of the individual governmental fund under consideration constitutes 25% of the total for the governmental fund category.
- B) With respect to fund basis financial statements, governmental funds are considered to be a major fund when total assets, liabilities, revenues, or expenditures of individual governmental or enterprise fund under consideration are 15% of the total of the governmental and enterprise categories, combined.
- C) Both A and B are required for a governmental fund to be a major fund.
- D) Neither A nor B are correct.

Answer: D

63. Which of the following statements is false?

- A) With respect to fund basis financial statements, a government may designate any fund to be a major fund if reporting that fund separately would be useful.
- B) When preparing fund basis financial statements, any funds not reported separately are aggregated and reported in a single column under the label *non-major funds*.
- C) When preparing fund basis financial statements, any funds not reported separately are reported by function.
- D) In addition to the government-wide statements, governments are required to prepare fund financial statements for governmental, proprietary and fiduciary funds.

Answer: C

64. Governmental fund statements are prepared using:

- A) Economic resources measurement focus and modified accrual basis of accounting.
- B) Current financial resources measurement focus and modified accrual basis of accounting.
- C) Economic resources measurement focus and accrual basis of accounting.
- D) Current financial resources measurement focus and accrual basis of accounting.

Answer: B

65. The total fund balances presented in Governmental Funds Statements are different from the total net assets on the government-wide Statement of Net assets. Which of the following is **not** a reason for this difference?
- A) The two statements have different bases of accounting
  - B) Capital assets used in government operations are not financial resources and therefore are not reported in the funds
  - C) Some liabilities are not due and payable in the current period and are not reported in fund liabilities
  - D) Accrued Wages Payable at year end are reported on the statement of net assets but are not reported in the fund statements

Answer: D

66. Which of the following is true regarding GASB's definition of the financial reporting entity?
- A) The financial reporting entity might include a primary government, component units, joint ventures, or a jointly governed organization.
  - B) Primary governments may be general-purpose governments (such as states, cities, and counties) or special-purpose governments that have separately elected governing bodies, are legally separate and are fiscally independent of other state or local governments.
  - C) Blending is used to incorporate component units when those component units are, in substance, part of the primary government.
  - D) All of the above are true.

Answer: D

67. Which of the following is true regarding the financial reporting entity of a state or local government?
- A) Many component units are discretely presented, rather than blended.
  - B) A school district could never be a primary government.
  - C) Only a primary government is reported in the government-wide statements.
  - D) All of the above are true.

Answer: A

68. Which of the following is true regarding the composition of the Comprehensive Annual Financial Report (CAFR)?

- A) The CAFR is required in order to be in conformity with Generally Accepted Accounting Principles (GAAP).
- B) The CAFR is to include both blended and discretely presented component units.
- C) The CAFR contains four major sections: introductory, financial, supplementary, and statistical.
- D) All of the above are true.

Answer: B

69. Which of the following is true regarding Management's Discussion and Analysis (MD&A)?

- A) MD&A is not considered part of Required Supplementary Information (RSI).
- B) MD&A takes the place of footnotes.
- C) MD&A should present an analysis of significant variations between the original and final budget.
- D) All of the above are true.

Answer: C

70. Under GASB rules for the financial reporting entity:

- A) component units are included if the primary government is financially accountable for their operations.
- B) counties are component units of the State Government.
- C) blended and discretely presented component units are to be reported in government-wide financial statements but **not** in fund financial statements.
- D) component units must be reported in columns (discrete presentation) separate from the funds of a primary government.

Answer: A

71. Which of the following is included in Required Supplementary Information (RSI)?

- A) Management's Discussion and Analysis (MD&A).
- B) Budgetary Comparison Schedule.
- C) The Schedule of Funding Progress and Schedule of Employer Contributions when the government reports a pension trust fund.
- D) All of the above.

Answer: D

72. Which of the following is **false** regarding the government-wide financial statements?
- A) The government-wide financial statements are **not** required to present prior-year data.
  - B) The government-wide financial statements include a Statement of Net Assets, Statement of Activities, and Statement of Cash Flows.
  - C) The government-wide financial statements include capital assets, including infrastructure, and reflect depreciation, except for infrastructure using the modified approach.
  - D) All of the above are true.

Answer: B

73. Which of the following is true regarding the government-wide Statement of Net Assets?
- A) The government-wide Statement of Net Assets reflects capital assets, net of accumulated depreciation, for both governmental and business-type activities.
  - B) The government-wide Statement of Net Assets must be prepared in a classified format; that is, both assets and liabilities must be separated between current and long-term categories.
  - C) The government-wide Statement of Net Assets includes all resources entrusted to the government; including governmental, proprietary, and fiduciary.
  - D) A reporting entity (primary government plus component units) total column is required.

Answer: A

74. Which of the following is true regarding the government-wide Statement of Activities?
- A) The government-wide Statement of Activities may reflect expenses either by function (general government, public safety, etc.) or by object or natural classification (salaries, supplies, etc.).
  - B) The government-wide Statement of Activities is prepared using the modified accrual basis of accounting for governmental activities and using the accrual basis of accounting for business-type activities.
  - C) The government-wide Statement of Activities reflects taxes as general revenues.
  - D) Indirect program expenses may **not** be allocated to the other functional areas.

Answer: C

75. Which of the following is true regarding the government-wide Statement of Activities?
- A) The Statement of Activities includes depreciation expense.
  - B) Transfers between governmental and business type activities are eliminated and do **not** appear on the government-wide Statement of Activities.
  - C) In the government-wide Statement of Activities, “special items” are those items that are both unusual and infrequent and are **not** under the control of management.
  - D) Taxes levied for specific functions may be reported as program revenue.

Answer: A

76. Which of the following is true regarding the governmental fund financial statements?
- A) The governmental fund financial statements include the Balance Sheet, and the Statement of Revenues, Expenditures, and Changes in Fund Balances.
  - B) The governmental fund financial statements are prepared on the current financial resources measurement focus and modified accrual basis of accounting.
  - C) The governmental fund Balance Sheet reflects the difference of assets minus liabilities as Fund Balance.
  - D) All of the above are true.

Answer: D

77. Which of the following items would likely appear in the reconciliation between the governmental fund financial statements and the governmental activities column in the government-wide financial statements?
- A) The inclusion of long-term liabilities in the government-wide financial statements and **not** in the governmental fund financial statements.
  - B) The inclusion of depreciation of capital assets in the governmental activities column of the government-wide financial statements and **not** in the governmental fund statements.
  - C) The additional accrual of some revenues and expenses in the government-wide financial statements that were **not** made in the governmental fund financial statements.
  - D) All of the above.

Answer: D

78. Which of the following is true regarding the Budgetary Comparison Schedule?
- A) The Budgetary Comparison Schedule compares the actual results to the original budget, but display of variances is optional.
  - B) The Budgetary Comparison Schedule must be prepared for the General Fund and each major special revenue fund that has a legally adopted budget.
  - C) The Budgetary Comparison Schedule is considered part of the basic financial statements.
  - D) All of the above are true.

Answer: B

79. Which of the following is false regarding major fund reporting for governmental funds?
- A) The General Fund is always a major fund.
  - B) Each fund that is considered major must be reported in a separate column in the governmental funds financial statements.
  - C) A government may designate any fund as major if it feels that reporting that fund in the basic financial statements would be useful.
  - D) None of the above, all are true.

Answer: D

80. Which of the following is true regarding the Comprehensive Annual Financial Report?
- A) The basic financial statements consist of the government-wide, the governmental fund, the proprietary fund, and the fiduciary fund financial statements (and the notes to the financial statements).
  - B) The government-wide financial statements include the Statement of Net Assets, the Statement of Activities, and the Statement of Cash Flows.
  - C) Both of the above.
  - D) Neither of the above.

Answer: A

81. Funds other than the General Fund must be considered a major fund when
- A) total assets, liabilities, revenues, or expenditures/expenses of that fund constitute 10 percent of either the governmental *or* enterprise category.
  - B) total assets, liabilities, revenues, or expenditures/expenses of that fund are 5 percent of the total of the governmental *and* enterprise category.
  - C) conditions of either A or B exist.
  - D) conditions of both A and B exist.

Answer: D

82. Which of the following is true regarding the governmental fund statements?

- A) The governmental fund statements include a Statement of Cash Flows prepared on the direct method.
- B) The governmental fund statements are prepared using the current financial resources measurement focus and modified accrual accounting.
- C) Both of the above.
- D) Neither of the above.

Answer: B

83. Which of the following is true regarding the proprietary fund financial statements?

- A) The proprietary fund financial statements include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Fund Net Assets, and the Statement of Cash Flows.
- B) The proprietary funds include enterprise, internal service, and permanent funds.
- C) Both of the above.
- D) Neither of the above.

Answer: A

84. Which of the following is true regarding fiduciary fund financial statements?

- A) Fiduciary fund financial statements include the Statement of Fiduciary Net Assets, the Statement of Changes in Fiduciary Net Assets, and the Statement of Cash Flows prepared on the direct method.
- B) Fiduciary fund financial statements are prepared on the current financial resources measurement focus and modified accrual accounting.
- C) Both of the above.
- D) Neither of the above.

Answer: D

85. Which of the following is true regarding the reporting of Budget-Actual Comparisons?

- A) A Budget-Actual Comparison Schedule is required for the General Fund and all major special revenue funds that have a legally adopted annual budget.
- B) A Budget-Actual Comparison Statement may be prepared in lieu of the Schedule.
- C) Both of the above.
- D) Neither of the above.

Answer: C

86. An example of an expenditure classification by function would be:

- A) Current.
- B) Public safety.
- C) Police Department.
- D) Salaries.

Answer: B

87. Which of the following is true regarding the reporting of major funds in the governmental funds financial statements?

- A) The General Fund is always considered a major fund.
- B) A fund is considered major if its revenues, expenditures, assets, or liabilities exceed 10% of the total governmental fund categories and if the same element (revenues, expenditures, assets, or liabilities) exceeds 5% of the governmental and enterprise funds combined.
- C) Both of the above.
- D) Neither of the above.

Answer: C

88. Which of the following is true regarding financial reporting of governmental funds?

- A) Governmental funds include the General Fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.
- B) The Fund Balance of governmental funds reports fund balance as reserved and unreserved.
- C) Both of the above.
- D) Neither of the above.

Answer: A

89. Which of the following is true regarding the government-wide Statement of Activities?

- A) General revenues include items such as charges for services and program fees.
- B) Fiduciary activities are included.
- C) Both of the above.
- D) Neither of the above.

Answer: D

90. Which of the following is true regarding the governmental fund statements?

- A) The Governmental Funds Balance Sheet does **not** reflect capital assets or long-term debt.
- B) The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances reports columns for major funds, non-major funds (in total), and total.
- C) Both of the above.
- D) Neither of the above.

Answer: C

91. Which of the following is true regarding component units?

- A) Component units could include towns, school districts, counties, and municipalities.
- B) Component units may be reported discretely in the government-wide statements or may be blended as a fund in the fund financial statements (and thus also included in the government-wide financial statements).
- C) Both of the above.
- D) Neither of the above.

Answer: B

92. Which of the following is true regarding the government-wide financial statements?

- A) The government-wide financial statements include the Statement of Net Assets and the Statement of Activities.
- B) The government-wide financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.
- C) Both of the above.
- D) Neither of the above.

Answer: A

93. Which of the following is true regarding the governmental fund financial statements?

- A) The governmental fund financial statements include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances.
- B) The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.
- C) Both of the above.
- D) Neither of the above.

Answer: C

94. Which of the following is true regarding the proprietary fund financial statements?
- A) The proprietary fund financial statements include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Fund Net Assets, and the Statement of Cash Flows.
  - B) The proprietary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.
  - C) Both of the above.
  - D) Neither of the above.

Answer: C

95. Which of the following is true regarding the proprietary funds statements?
- A) Major enterprise and internal service funds are reported in separate columns; a column is presented for all non-major enterprise and internal service funds (combined), and a total column is presented.
  - B) Financial statements include a Statement of Net Assets (or balance sheet), Statement of Revenues, Expenses, and Changes in Fund Net Assets, and Statement of Cash Flows.
  - C) Both of the above.
  - D) Neither of the above.

Answer: B

96. Which of the following is true regarding fiduciary fund statements?
- A) Fiduciary fund statements include the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.
  - B) Fiduciary fund statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
  - C) Both of the above.
  - D) Neither of the above.

Answer: A

97. Which of the following is true regarding fiduciary funds?
- A) Fiduciary funds are reported in the fiduciary fund financial statements but **not** in the government-wide financial statements.
  - B) Agency funds would be reported in both the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.
  - C) Both of the above.
  - D) Neither of the above.

Answer: A

98. Where in the CAFR would one find the long-term liability for revenue bonds (paid from the revenues of an enterprise fund)?
- A) The proprietary funds Statement of Net Assets only.
  - B) The government-wide Statement of Net Assets only.
  - C) The government-wide Statement of Net Assets and the proprietary funds Statement of Net Assets.
  - D) The government-wide Statement of Net Assets and the RSI Schedule of Bonds Payable.

Answer: C

99. Which of the following funds requires a Budgetary Comparison Schedule?
- A) Enterprise Funds
  - B) Internal Service Funds
  - C) Investment Trust Funds
  - D) General Fund

Answer: D

100. Which part of the financial section of the CAFR is considered “Required Supplementary Information?”
- A) Auditor’s Report
  - B) Management’s Discussion and Analysis
  - C) Government-Wide Financial Statements
  - D) Fund Financial Statements

Answer: B

101. Which of the following is true regarding Government-wide financial statements?
- A) A Statement of Cash Flows is not required for Government-wide statements.
  - B) Prior year data must be presented
  - C) Depreciation can be reported in the statements or disclosed in footnotes.
  - D) Fiduciary activities are only reported if they qualify as a major fund.

Answer: A

102. A reconciliation from Enterprise funds statements to government-wide statements is **not** necessary because ...
- A) They both use the same measurement focus and basis of accounting (economic resources, accrual)
  - B) They both use the same measurement focus and basis of accounting (current financial resources, modified accrual)
  - C) They use a different measurement focus and basis of accounting.
  - D) They use a different measurement focus and basis of accounting.

Answer: A

103. Which of the following sections of the CAFR is audited?
- A) Introductory section
  - B) Financial section
  - C) Statistical section
  - D) Management Discussion and Analysis section

Answer: B

104. The statistical section typically presents \_\_\_\_ years of information in each table or schedule.
- A) 3
  - B) 5
  - C) 10
  - D) 12

Answer: C

105. What are the three major sections of the Comprehensive Annual Financial Report?
- A) Introductory Section, Financial Section, Statistical Section
  - B) Introductory Section, Financial Section, Management Discussion and Analysis.
  - C) Introductory Section, Financial Section, Budgetary Comparison
  - D) Introductory Section, Financial Section, Reporting Infrastructure

Answer: A

106. In addition to a Statement of Net Assets, Proprietary Fund level financial statements include which of the following?
- A) Statement of revenues, expenses, and changes in fund net assets.
  - B) Statement of cash flows.
  - C) Both of the above.
  - D) Neither of the above.

Answer: C.

107. A budgetary comparison schedule is required for?
- A) The General Fund.
  - B) Each special revenue fund that has a legally adopted annual budget.
  - C) Enterprise funds.
  - D) (A) and (B) only.

Answer: D

108. In addition to a Statement of Net Assets, what statements are required in the government-wide Financial Statements?
- A) Statement of Activities.
  - B) Statement of Cash Flows.
  - C) Both of the above.
  - D) Neither of the above.

Answer: A

109. Which Statement is presented using the Accrual Basis of Accounting?
- A) Governmental Fund Balance Sheet
  - B) Government-Wide Statement of Activities
  - C) Statement of Revenues, Expenditure and changes in Fund Balances
  - D) A and C

Answer: B

110. A statement of Cash Flows is required for which type of Fund?
- A) Governmental
  - B) Fiduciary
  - C) Proprietary
  - D) All of the above

Answer: C

111. GASB requires which of the following (if applicable) to be included in the Notes to Financial Statements?
- A) Outstanding encumbrances
  - B) The definition of cash and cash equivalents used in the statement of cash flows for proprietary funds.
  - C) Interfund receivables and payables.
  - D) All of the above.

Answer: D

112. GASB provides which method(s) for including component unit financial information with that of the primary government?
- A) Discrete Presentation
  - B) Blending
  - C) A and B
  - D) None of the above

Answer: C.

113. The modified approach for infrastructure requires schedules and disclosures to be included in which part of the CAFR?
- A) Notes to the Financial Statements
  - B) Required Supplementary Information
  - C) Other Supplementary Information
  - D) Proprietary Fund Statements

Answer: B.

114. Which of the following is **not** true regarding the Statement of Cash Flows for proprietary funds?
- A) At the bottom of the statement, net income is reconciled to cash flows from operations.
  - B) Interest and dividends received are recorded as investing activities.
  - C) The direct method is required for reporting cash flows from operations.
  - D) Four categories of cash flows are used.

Answer: A

115. Which of the following is true about the combining financial statements?
- A) They are used whenever a non-major column is used in one of the fund financial statements
  - B) The total column in the combining statements is not always the same as the non-major funds column in the basic financial statements
  - C) Both of the above
  - D) Neither of the above

Answer: A

116. Which of the following funds require a Statement of Cash Flows?
- A) Governmental funds
  - B) Proprietary funds
  - C) Fiduciary Funds
  - D) Governmental and Fiduciary Funds

Answer: B

117. With respect to Government-wide financial statements, which of the following is **not** required by GASB Statement 34?
- A) Statement of Net Assets
  - B) Statement of Cash Flow
  - C) Statement of Activities
  - D) All of the above are required by GASB Statement 34

Answer: B

118. Which of the following is **not** one of the major sections of the Comprehensive Annual Financial Report (CAFR)?
- A) Budgetary
  - B) Financial
  - C) Introductory
  - D) Statistical

Answer: A

119. Which of the following is one of the criteria to determine if a governmental fund is considered to be a major fund?
- A) Total assets, liabilities, revenues or expenditures of the individual governmental fund constitutes 10 percent of the governmental funds category.
  - B) Total assets, liabilities, revenues or expenditures/expenses are 5 percent of the total of the governmental and enterprise category. Other funds may be designated major funds at the discretion of management.
  - C) Both A and B are required
  - D) Either A or B will qualify a fund to be a major fund

Answer: C

### Short Answer Questions

120. Identify three items often found in Required Supplementary Information.

Answer:

Any three of the following:

1. Management's Discussion and Analysis (MD&A)
2. Budgetary Comparison Schedule.
3. Schedule of Funding Progress and Schedule of Employer Contributions when a government reports a pension trust fund.
4. Certain information required when a government uses the modified approach for reporting infrastructure.
5. Certain information when a government sponsors an external financing pool.

121. List the Government-wide financial statements required by GASB Statement 34.

Answer:

Government-wide financial statements:

- Statement of Net Assets
- Statement of Activities

122. List the fund financial statements required by GASB Statement 34 for governmental type funds.

Answer:

Governmental fund financial statements:

- Balance Sheet
- Statement of Revenues, Expenditures, and Changes in Fund Balances

123. List the fund financial statements required by GASB Statement 34 for proprietary type funds.

Answer:

Proprietary fund financial statements:

- Statement of Net Assets (or Balance Sheet)
- Statement of Revenues, Expenses, and Changes in Fund Net Assets
- Statement of Cash Flows

124. List the basic financial statements required by GASB Statement 34 for fiduciary type funds.

Answer:

Fiduciary fund financial statements:

- Statement of Fiduciary Net Assets
- Statement of Changes in Fiduciary Net Assets

125. In addition to government-wide statements, governments are required to prepare fund financial statements within which three categories of funds?

Answer: Governmental  
Proprietary  
Fiduciary

126. What are the five categories of fund balance on a Governmental Funds Balance Sheet?

Answer: Non-spendable  
Restricted  
Committed  
Assigned  
Unassigned

127. List the five categories outlined in GASB Statement 44 to be included in the statistical section of the CAFR.

Answer:

1. Financial trends information
2. Revenue capacity information
3. Debt capacity information
4. Demographic and economic information
5. Operating information

128. List and describe the three major sections of the Comprehensive Annual Financial Report and indicate briefly what is in each.

Answer:

The three major sections are introductory, financial and statistical. The introductory section includes a letter of transmittal, organization chart, and list of principal officials. The financial section includes the auditor's report, MD&A, the basic financial statements (including the footnotes), other RSI, combining statements for non-major funds (not reported separately in the basic financial statements), and schedules. The statistical section includes certain statistical tables indicating financial trends, revenue and debt capacity, demographic and economic information and operating information. Data is generally presented for the past 10 years.

129. What is the rule for determining whether a governmental fund, other than the General Fund, is a major fund?

Answer:

A governmental fund is considered major if both of the following conditions exist:

(1) Total assets, liabilities, revenues or expenditures of the individual governmental fund in question constitutes 10 percent or more of the governmental funds category.

AND

(2) Total assets, liabilities, revenues or expenditures/expenses of the fund in question are 5 percent or more of the total of the governmental and enterprise categories, combined.

Other funds may be designated a major fund if reporting that fund separately would be useful at the discretion of management.

130. GASB Statement 34 requires supplementary information (RSI) for what two major areas?

Answer:

- Budgetary comparison schedules
- Information about infrastructure assets reporting using the modified approach

131. The Governmental Accounting Standards Board has established rules for determining when a government should include another entity in its financial statements.

- a) Distinguish between a primary government and a component unit. Include one example of each.
- b) GASB permits two methods of reporting component units in the financial reporting entity. Describe the two methods and indicate when each should be used.
- c) The City of X is deciding whether or not to include a transit system in its financial report and how the transit system would be reported if a positive decision were made. The transit system is a legally separate entity, has its own governing board, not appointed by the city, has a different auditor, and issues its own financial report. The city has signed an agreement that, for the next ten years (the life of a bond issue related to transit operations), and it will make up the deficit of the transit system. During the last two years, the deficit has been \$10 million, approximately 50% of the amount reported as a profit of its other enterprise operations. Make recommendations to the city, including whether or not to include the transit system and, if so, how to report it.

Answer:

- a) A primary government is a state or a general-purpose local government, such as a municipality or a county. It may also be a special purpose government that has a separately elected governing board, is legally separate, and is fiscally independent of other state or local governments. A component unit is a legally separate organization for which the elected officials of a primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. An example of a primary government would be a city. An example of a component unit might be a library that is legally separate and has its own board but is financially dependent on the city.
- b) The two methods are blending and discrete presentation. Blending is the reporting of a component unit in the government-wide financial statements as a part of the primary government. Blending is appropriate only when the component unit is “so intertwined with the primary government that they are in substance the same entity”. Discrete presentation involves presenting financial information of the component in a separate column apart from the primary government and not included in the totals for the primary government. Discrete presentation is the most commonly used method.
- c) In this case, I would recommend that the transit system be incorporated as a component unit based on the idea that “exclusion would cause the reporting entity's financial statements to be misleading or incomplete.” The Statement of Activities would show the operating loss of the transit system and the transfer from the primary government to make up the deficit. I would report it discretely, not blended, as the transit system is generally separate.

**Exercises**

132. The following information is available for the preparation of the government-wide financial statements of the City of Aurora as of June 30, 2014:

Accounts payable, business-type activities	\$ 340,000
Accounts payable, governmental activities	610,000
Capital assets, net, business-type activities	10,300,000
Capital assets, net, governmental activities	10,800,000
Cash and cash equivalents, business-type activities	1,900,000
Cash and cash equivalents, governmental activities	1,600,000
Inventories, business-type activities	600,000
Net assets, restricted for debt service, business-type activities	640,000
Net assets, restricted for debt service, governmental activities	930,000
Net assets, invested in capital assets, net, business-type activities	4,160,000
Net assets, invested in capital assets, net, governmental activities	7,650,000
Noncurrent liabilities, business-type activities	5,190,000
Noncurrent liabilities, governmental activities	3,150,000
Receivables, business-type activities	1,230,000
Receivables, governmental activities	600,000

Assume all long-term liabilities were incurred in the acquisition of capital assets.

Required: From the information given above, prepare, in good form, a Statement of Net Assets for the City of Aurora as of June 30, 2014. Include the unrestricted net assets, which is to be computed from the information presented above. Include a total column. Aurora has no component units.

Answer:

CITY OF AURORA  
STATEMENT OF NET ASSETS  
JUNE 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$1,600,000	\$1,900,000	\$3,500,000
Receivables	400,000	1,430,000	1,830,000
Inventories		600,000	600,000
Capital Assets, Net	<u>10,800,000</u>	<u>10,300,000</u>	<u>21,100,000</u>
Total Assets	<u>13,000,000</u>	<u>14,030,000</u>	<u>27,030,000</u>
Liabilities:			
Accounts Payable	610,000	340,000	950,000
Noncurrent Liabilities	<u>3,150,000</u>	<u>5,190,000</u>	<u>8,340,000</u>
Total Liabilities	<u>3,760,000</u>	<u>5,530,000</u>	<u>9,290,000</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	7,650,000	4,160,000	11,810,000
Restricted for Debt Service	930,000	640,000	1,570,000
Unrestricted	<u>660,000</u>	<u>3,700,000</u>	<u>4,360,000</u>
Total Net Assets	<u>\$9,240,000</u>	<u>\$8,500,000</u>	<u>\$17,740,000</u>

133. The following information is available for the preparation of the government-wide financial statements for the Village of Twin Oaks for the year ended June 30, 2014:

Expenses:	
General government	\$21,000,000
Public safety	18,200,000
Public works	13,800,000
Health and sanitation	6,300,000
Culture and recreation	5,700,000
Water and sewer system	8,100,000
Parking system	420,000
Revenues:	
Charges for services, general government	1,200,000
Charges for services, public safety	300,000
Operating grant, public safety	940,000
Charges for services, health and sanitation	3,000,000
Operating grant, health and sanitation	920,000
Charges for services, culture and recreation	2,200,000
Charges for services, water and sewer	10,250,000
Charges for services, parking system	740,000
Property taxes	35,300,000
Sales taxes	23,400,000
Other:	
Special item—gain on sale of park land	1,210,000
Transfer from business-type activities to governmental	500,000
Net assets, July 1, 2013 – governmental activities	14,410,000
Net assets, July 1, 2013 – business-type activities	12,312,000

Required: From the information given above, prepare, in good form, a Statement of Activities for the Village of Twin Oaks for the Year Ended June 30, 2014.

Answer:

VILLAGE OF TWIN OAKS STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2014						
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net(Expense)Revenue and Change in Net Assets</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
<u>Governmental Activities:</u>						
General Government	\$21,000,000	1,200,000		\$(19,800,000)	\$	\$(19,800,000)
Public Safety	18,200,000	300,000	940,000	(16,960,000)		(16,960,000)
Public Works	13,800,000			(13,800,000)		(13,800,000)
Health and Sanitation	6,300,000	3,000,000	920,000	(2,380,000)		(2,380,000)
Culture and Recreation	<u>5,700,000</u>	<u>2,200,000</u>	<u>          </u>	<u>(3,500,000)</u>		<u>(3,500,000)</u>
Total Governmental Activities	<u>65,000,000</u>	<u>6,700,000</u>	<u>1,860,000</u>	<u>(56,440,000)</u>		<u>(56,440,000)</u>
<u>Business-Type Activities:</u>						
Water and Sewer System	8,100,000	10,250,000	---	---	2,150,000	2,150,000
Parking System	<u>420,000</u>	<u>740,000</u>	<u>---</u>	<u>---</u>	<u>320,000</u>	<u>320,000</u>
Total Business-Type Activities	<u>8,520,000</u>	<u>10,990,000</u>	<u>---</u>	<u>---</u>	<u>2,470,000</u>	<u>2,470,000</u>
Total	<u>\$73,520,000</u>	<u>\$17,690,000</u>	<u>\$1,860,000</u>	<u>(56,440,000)</u>	<u>2,470,000</u>	<u>(53,970,000)</u>
<u>General Revenues</u>						
Property Taxes				35,300,000		35,300,000
Sales Taxes				23,400,000		23,400,000
Special Item-Gain on Sale of Park Land				1,210,000		1,210,000
Transfers				<u>500,000</u>	<u>(500,000)</u>	<u>---</u>
Total General Revenues, Special Items, and Transfers				<u>60,410,000</u>	<u>(500,000)</u>	<u>59,910,000</u>
Change in Net Assets				3,970,000	1,970,000	5,940,000
Net Assets, July 1, 2013				<u>14,410,000</u>	<u>12,612,000</u>	<u>27,022,000</u>
Net Assets, July 30, 2014				<u>\$18,380,000</u>	<u>\$14,582,000</u>	<u>\$32,962,000</u>

134. The following General Fund information is available for the preparation of the financial statements for the City of Pine Cove for the year ended December 31, 2014.

Revenues:	
Property taxes	\$26,400,000
Sales taxes	10,150,000
Fines and forfeits	1,320,000
Licenses and permits	2,160,000
Intergovernmental	890,000
Investment earnings	660,000
Expenditures:	
Current:	
General government	8,200,000
Public safety	21,000,000
Public works	6,300,000
Health and sanitation	1,200,000
Culture and recreation	12,160,000
Other:	
Encumbrances	100,000
Appropriations	40,000,000
Estimated Revenues	42,000,000
Transfer to debt service fund	1,130,000
Special item-proceeds from sale of land	760,000
Fund balance, January 1, 2014	7,600,000

Required: From the information given above, prepare, in good form, a General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the City of Pine Cove for the Year Ended December 31, 2014.

Answer:

CITY OF PINE COVE  
 GENERAL FUND STATEMENTS OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCES  
 YEAR ENDED DECEMBER 31, 2014

Revenues:		
Property Taxes		\$26,400,000
Sales Taxes		10,150,000
Fees and Fines		1,320,000
Licenses and Permits		2,160,000
Intergovernmental Revenues		890,000
Investment Earnings		<u>660,000</u>
Total Revenues		41,580,000
Expenditures:		
Current:		
General Government	\$ 8,200,000	
Public Safety	21,000,000	
Public Works	6,300,000	
Health and Sanitation	1,200,000	
Culture and Recreation	4,160,000	
Total Expenditures		<u>40,860,000</u>
Excess of Expenditures Over Revenues		720,000
Other Financing Sources (Uses):		
Transfer to Special Revenue Fund	<u>(1,130,000)</u>	
Total Other Financing Sources (Uses)		(1,130,000)
Special Item: Proceeds from Sale of Land		<u>760,000</u>
Net Change in Fund Balance		350,000
Fund Balance, January 1, 2014		<u>7,600,000</u>
Fund Balance, December 31, 2014		<u>\$7,950,000</u>

135. The following water and sewer information is available for the preparation of the financial statements for the County of Augusta for the year ended June 30, 2014:

Operating revenues—charges for services	\$17,590,000
Operating expenses:	
Personal services	9,490,000
Contractual services	1,822,000
Utilities	880,000
Repairs and maintenance	1,580,000
Depreciation	2,640,000
Interest revenue	130,000
Interest expense	340,000
Capital contributions	997,000
Transfer to General Fund	900,000
Net assets, July 1, 2013	2,720,000

Required: From the information given above, prepare, in good form, a Water and Sewer Fund column for the proprietary fund Statement of Revenues, Expenses, and Changes in Fund Net Assets for the County of Augusta for the Year Ended June 30, 2014.

Answer:

COUNTY OF AUGUSTA  
 WATER AND SEWER FUND  
 STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN FUND NET ASSETS  
 YEAR ENDED JUNE 30, 2014

Operating Revenues:		
Charges for Services		\$17,590,000
Operating Expenses:		
Personal Services	\$9,490,000	
Contractual Services	1,822,000	
Utilities	880,000	
Repairs and Maintenance	1,580,000	
Depreciation	<u>2,640,000</u>	
Total Operating Expenses		<u>16,412,000</u>
Operating Income		1,178,000
Non-operating Revenues (Expenses):		
Interest Revenue	130,000	
Interest Expense	<u>(340,000)</u>	
Total Non-operating Revenues and Expenses		<u>(210,000)</u>
Income Before Contributions and Transfers		968,000
Capital Contributions		997,000
Transfer to General Fund		<u>(900,000)</u>
Change in Net Assets		1,065,000
Net Assets, July 1, 2013		<u>2,720,000</u>
Net Assets, June 30, 2014		<u>\$ 3,785,000</u>