**Test Bank**

**to Accompany**

***Essentials of Accounting for Governmental and Not-for-Profit Organizations:***

***Thirteenth Edition***

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**True/False Questions**

1. The Governmental Accounting Standards Board sets financial reporting standards for all units of government: federal, state, and local.

Answer: False

Learning Objective: 2

Topic: Distinguish between private and public sector organizations

Feedback: The GASB sets standards for state and local governments but not the federal government. GASB also sets standards for governmentally related not-for-profit organizations, health care entities, museums, libraries, and performing arts organization owned or controlled by governments.

1. Fund accounting exists primarily to provide assurance that resources are used according to legal or donor restrictions.

Answer: True

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting.

Feedback: Fund accounting allows governments to segregate resources that have restrictions or limitations on the use of those resources. Each fund can account for the receipt and use of resources to provide assurance of compliance with legal restrictions or limitations.

1. The Financial Accounting Standards Board sets financial reporting standards for profit-seeking businesses and nongovernmental, not-for-profit organizations.

Answer: True

Learning Objective: 3

Topic: Sources of GAAP

Feedback: Accounting and financial reporting standards for profit-seeking businesses and for nongovernmental not-for-profit organizations are set by the FASB.

1. FASAB, GASB and FASB standards are set forth primarily in documents called statements.

Answer: True

Learning Objective: 3

Topic: Sources of GAAP

Feedback: GASB standards are set forth in documents called Statements of Financial Accounting Standards.

1. FASAB, GASB and FASB standards are set forth primarily in documents called concept statements.

Answer: False

Learning Objective: 3

Topic: Sources of GAAP

Feedback: Standards are set forth in documents called "Statements", not concept statements.

1. The FASAB was established to recommend accounting and financial reporting standards for the federal government.

Answer: True

Learning Objective: 3

Topic: Sources of GAAP

Feedback: Accounting and financial reporting standards for the federal government are published by the FASAB. The standards are technically “recommendations” since, as a sovereign nation, the federal government cannot relegate authority to an independent board.

1. The GASB does **not** require supplementary information to be reported with its financial statements even if it is essential to establish appropriate context for the financial statements and notes.

Answer: False

Learning Objective: 3

Topic: Objectives of Accounting and Financial Reporting for State and Local governmental units.

Feedback: Occasionally, the GASB determines that additional information is necessary to provide context and understanding of information in the statements or notes. In such cases, the GASB requires the presentation of required supplementary information (RSI).

1. The Financial Accounting Standards Board sets financial reporting standards for private not-for-profits and investor-owned businesses.

Answer: True

Learning Objective: 3

Topic: Sources of GAAP

Feedback: Accounting and financial reporting standards for profit-seeking businesses and for nongovernmental not-for-profit organizations are set by the FASB.

1. An organization is presumed to be governmental if it has the ability to issue directly debt that is exempt from federal taxes.

Answer: True

Learning Objective: 3

Topic: Definition of Government

Feedback: Organizations are presumed to be governmental if they have the ability to issue directly (rather than through a state or municipal authority) debt that pays interest exempt from federal income taxes.

1. The Financial Accounting Standards Board and the Governmental Accounting Standards Board are parallel bodies under the oversight of the Financial Accounting Foundation.

Answer: True

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The GASB and FASB are parallel bodies under the oversight of the Financial Accounting Foundation (FAF). The FAF appoints members of the two boards and provides financial support to the boards.

1. The Federal Accounting Standards Advisory Board requires less extensive reports than does the FASB or GASB.

Answer: False

Learning Objective: 3

Topic: Sources of GAAP

Feedback: FASAB requires more financial statements than are typically required of state and local governments, public and private not-for-profits and investor-owned businesses.

1. The FASAB requires more financial statements than are typically required of state and local governments.

Answer: True

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The Federal Accounting Standards Advisory Board requires a greater number of financial statements than does the FASB or GASB

1. The only objective of the Governmental Accounting Standards Board is to help users determine compliance with finance-related laws, rules, and regulations.

Answer: False

Learning Objective: 3

Topic: Objectives of Accounting and Financial Reporting for State and Local Government Units

Feedback: The GASB has multiple objectives and has issued six concept statements to assist in meeting these objectives which addresses the needs of users of government: accounting information, service efforts and accomplishments, presentation of financial information, required supplementary information and disclosures, definitions and asset measurement.

1. Governments must have as many funds as necessary to fulfill legal requirements and sound financial administration but must have at a minimum a General Fund.

Answer: True

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Every government will have a single General Fund but may have multiple funds in each of the other categories.

1. A Management's Discussion and Analysis is required for state and local governmental units, and the federal government.

Answer: True

Learning Objective: 3

Topic: Management discussion and analysis

Feedback: The GASB requires MD&A for state and local governments and the FASAB requires MD&A for the federal government.

1. The GASB Concept Statement on Service Efforts and Accomplishments Reporting encourages state and local governments to include inputs of nonmonetary resources in their financial reporting.

Answer: True

Learning Objective: 3

Topic: Objectives of Accounting and Financial Reporting for State and Local Governmental Units

Feedback: Governments have difficulty in meeting the information needs of citizens. Traditional financial statements, which measure events in dollars, are not well designed to evaluate a government’s effectiveness in delivering services. Nonfinancial measures are better indicators of performance. GASB’s Concept Statements No. 2 and No. 5 address service efforts and accomplishments.

1. Although certain supplementary information may **not** be required, if presented, it must follow GASB guidance regarding its format and content.

Answer: True

Learning Objective: 3

Topic: Objectives of Accounting and Financial Reporting for State and Local Governmental Units

Feedback: The GASB requires required supplementary information (RSI) if such information is necessary to provide context and understanding. Concepts Statement No.3 defines the methods of presenting RSI.

1. The GASB Concept Statement on Service Efforts and Accomplishments Reporting requires state and local governments to include inputs of nonmonetary resources in their financial reporting.

Answer: False

Learning Objective: 3

Topic: Objectives of Accounting and Financial Reporting for State and Local Governmental Units

Feedback: Occasionally the GASB determines that additional information is necessary to provide context and understanding of information in the statements or notes. In such cases, the GASB requires the presentation of required supplementary information (RSI)

1. The format and content of supplementary information which is **not** required by GASB is up to the discretion of the reporting entity

Answer: False

Learning Objective:3

Topic: Disclosure hierarchy

Feedback: GASB Concepts Statement #3 defines methods of presenting information in financial reports including supplementary information that is not required by GASB.

1. GASB and FASB Concept Statements establish accounting standards that must be complied with to receive an unqualified audit opinion.

Answer: False

Learning Objective:3

Topic: Sources of GAAP

Feedback: Concept statements do not establish accounting standards but primarily serve to guide standard setting bodies. Governments must comply with GAAP (as established by Statements) to receive unqualified audit opinions.

1. FASAB, GASB and FASB standards are set forth primarily in documents called interpretations.

Answer: False

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The GASB issued interpretations in the past to provide guidance on previously issued statements but no longer does so.

1. Fund-basis statements are presented for three categories of government activities: governmental, proprietary, and fiduciary.

Answer: True

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: The 11 government funds used by state and local governments are split into three categories; fiduciary, proprietary and governmental.

1. State and local governments may use twelve different fund types.

Answer: False

Learning Objective: 4

Topic Fund Structure for State and Local Government Accounting and Reporting

Feedback: There are eleven fund types.

1. The economic resource measurement focus and accrual basis of measurement is an important feature of government-wide financial statements.

Answer: True

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: The government-wide statements and the fund statements for proprietary funds and fiduciary funds use the economic resource measurement focus and the accrual basis of accounting.

1. Businesslike activities fund statements must be changed to the accrual basis from the modified accrual basis when preparing government-wide financial statements.

Answer: False

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Proprietary funds are used to account for a government’s activities that are businesslike in nature. Proprietary funds use the accrual basis of accounting.

1. Governmental-type activities fund statements must use accrual basis when preparing government-wide financial statements.

Answer: True

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Governmental funds use the modified accrual basis of accounting and must be adjusted through worksheet entries to reflect an economic resource measurement focus and the accrual basis of accounting before being presented in the government-wide financial statements.

1. Fiduciary funds of a governmental unit use the current financial resources measurement focus and modified accrual basis of accounting

Answer: False

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Fiduciary funds use the economic resources measurement focus and the accrual basis of accounting.

1. Under the accrual basis of accounting, revenues are recognized when measurable and available to finance expenditures of the current period.

Answer: False

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: The accrual basis of accounting recognizes revenues when they are earned and are expected to be realized, and recognizes expenses when the related goods or services are used up. The modified accrual basis of accounting measures revenues when measurable and available to finance the expenditures of the current period.

1. The government-wide statements and the fund statements for proprietary funds and fiduciary funds use the economic resources measurement focus and the accrual basis of accounting.

Answer: True

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: The government-wide statements and the fund statements for proprietary funds and fiduciary funds use the economic resource measurement focus and the accrual basis of accounting.

1. General fixed assets of the government are reported both in the government-wide financial statements and the governmental fund financial statements.

Answer: False

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Governmental funds are reported using the modified accrual basis of accounting. Governmental-type activities are reported in the government-wide statements using the accrual basis of accounting, including fixed assets and long-term debt.

1. Comparison of the legally approved budget with actual results of the General Fund is **not** part of required supplementary information in the CAFR.

Answer: False

Learning Objective:1

Topic: Budgetary Accounting

Feedback: The budget comparison schedule (or statement) is part of the RSI in the CAFR

1. Comparison of the legally approved budget with actual results of the General Fund is included as part of required supplementary information in the CAFR.

Answer: True

Learning Objective:1

Topic: Budgetary Accounting

Feedback: The budget comparison schedule (or statement) is part of the RSI in the CAFR

1. Long-term debt associated with governmental activities (i.e. that is to be paid with tax revenues) is reported in the government-wide statements but not in the governmental fund statements

Answer: True

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Governmental activities balances are changed through combining worksheets and journal entries to reflect an economic resource measurement focus and the accrual basis of accounting before being presented in the government-wide statements.

1. Measurement focus refers to those items, such as current and long-term assets, that are being reported on the financial statements.

Answer: True

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Measurement focus refers to what items are being reported in the financial statements. An economic resource measurement focus measures both current and long-term assets and liabilities and is the measurement focus used by commercial businesses. Current financial resources measurement focus measures the extent to which financial resources obtained during a period are sufficient to cover claims incurred during that period against financial resources and the net financial resources available for future periods.

1. Infrastructure is capitalized by state and local governmental units.

Answer: False

Learning Objective:4

Topic: Measurement focus and Basis of Accounting

Feedback: Infrastructure, purchased through governmental type funds would not be recorded under the current financial resource measurement focus

1. Fiduciary funds include agency, pension trust, investment trust, and permanent funds.

Answer: False

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Fiduciary funds include private-purpose trust, investment trust, pension trust and agency funds.

1. The Financial Accounting Standards Board has authority to establish accounting and financial reporting standards for both private and state universities.

Answer: False

Learning Objective: 3

Topic: Sources of GAAP

Feedback: Accounting and financial reporting standards for profit-seeking businesses and for nongovernmental not-for-profit organizations are set by the FASB which includes private universities. The GASB sets standards for governmentally related not-for-profits organizations such as colleges and universities.

1. FASB sets the reporting standards for private not-for-for profits.

Answer: True

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The FASB sets standards for private not-for-profits and investor-owned businesses.

1. Internal Service funds are treated as governmental activities in the government-wide statements if the principal customers are other departments within the General Fund.

Answer: True

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Per Illustration 1-3, most internal service funds are included as governmental activities

1. Permanent funds can be either a governmental fund or a fiduciary fund where only income on donated assets may be spent.

Answer: False

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: A Permanent fund is a governmental fund. Fiduciary funds are private-purpose trust, investment trust, pension trust or agency funds.

1. Depreciation on capital assets is included as an expense in the Statement of Activities in the governmental fund statements.

Answer: False

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Governmental funds use the current financial resources measurement focus and modified accrual accounting. Under modified accrual accounting, revenues are recognized when measurable and available to finance the expenditures of the current period. Expenditures, not expenses, are recognized in the period in which the fund liability is incurred. Long-term assets are not generally recognized.

1. Depreciation on capital assets is included as an expense in the Statement of Revenues, Expenses, and Changes in Fund Net Position in the proprietary fund financial statements

Answer: True

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Proprietary funds are used to account for a government’s activities that are businesslike in nature. The financial statements are prepared using the economic resources measurement focus and accrual accounting.

1. Depreciation on capital assets is **not** included as an expense in the Statement of Revenues, Expenses, and Changes in Fund Net Position in the proprietary fund financial statements

Answer: False

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Proprietary funds are used to account for a government’s activities that are businesslike in nature. The financial statements are prepared using the economic resources measurement focus and accrual accounting.

1. According to GASB standards relating to Budgetary Accounting, an annual budget should be adopted by every governmental unit.

Answer: True

Learning Objective:1

Topic: Budgetary accounting

Feedback: GASB standards contain a 3 part budgetary principle which requires annual budgets and budget to actual reporting

1. According to GASB standards relating to Budgetary Accounting, budgetary comparisons should be included in the appropriate financial statements or schedules for governmental funds for which an annual budget has been adopted.

Answer: True

Learning Objective:1

Topic: Budgetary accounting

Feedback: The budget comparison schedule (or statement) is part of the RSI in the CAFR

1. According to GASB standards relating to Budgetary Accounting, budgetary comparisons are required for all funds even those for which an annual budget has not been adopted.

Answer: False

Learning Objective:1

Topic: Budgetary accounting

Feedback: The budget comparison schedule (or statement) is part of the RSI in the CAFR

1. According to FASB standards relating to Budgetary Accounting, the accounting system should provide the basis for appropriate budgetary control.

Answer: False

Learning Objective: 2

Topic: Role of the Budget

Feedback: GASB standards contain a 3 part budgetary principle which requires the accounting system to provide appropriate budgetary control.

1. For most state and local governments, the budget, when adopted according to procedures specified by state laws, is not binding upon the administrators of a governmental unit.

Answer: False

Learning Objective: 2

Topic: Role of the Budget

Feedback: Government budgets are expressions of public policy and often carry the authority of law, preventing public officials from spending outside their budgetary authority.

1. A fund represents part of the activities of an organization which is separated from other activities in the accounting records to more easily demonstrate compliance with legal restrictions or limitations.

Answer: True

Learning Objective: 2

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: A fund is a self-balancing set of accounts that separately reports the resources and activities of a part of the government and that is segregated because of the existence of restrictions or limitations on the use of resources.

1. A government may have two or more General Funds.

Answer: False

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Every government will have a single General Fund but may have multiple funds in each of the other categories.

1. The GASB recently published a white paper which identifies five environmental differences between governments and for-profit enterprises.

Answer: True

Learning Objective: 2

Topic: Objectives of Accounting and Financial Reporting for State and Local governmental units.

Feedback: The white paper identifies five environmental differences between governments and for-profit businesses enterprises and describes how those differences manifest in differences in the objectives and practice of financial reporting.

1. The FASB sets accounting and financial reporting standards for governmentally related not-for-profit organizations, such as colleges and universities, health care entities, museums, libraries, and performing arts organizations that are owned or controlled by governments.

Answer: False

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The GASB sets accounting and financial reporting standards for governmentally related not-for-profit organizations, such as colleges and universities, health care entities, museums, libraries, and performing arts organizations that are owned or controlled by governments.

1. Accounting and financial reporting standards for profit-seeking businesses and for nongovernmental not-for-profit organizations are set by the Financial Accounting Standards Board.

Answer: True

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The Financial Accounting Standards Board (FASB) sets standards for private not-for profits and investor-owned businesses.

1. The Financial Accounting Foundation (FAF) has oversight over the GASB but not the FASB.

Answer: False

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The GASB and the FASB are parallel bodies under the oversight of the FAF. The FAF appoints the members of the two boards and provides financial support.

1. The information needs of government creditors are vastly different from their counterparts in the corporate world which necessitates different accounting rules.

Answer: False

Learning Objective: 2

Topic: Objectives of Accounting and Financial Reporting for State and Local governmental units..

Feedback: Like businesses, governments have creditors who are interested in assessing the credit worthiness of the government.

1. GASB utilizes two additional elements that do **not** appear in the balance sheets of nongovernmental organizations:  deferred inflows and deferred outflows of resources.

Answer: True

Learning Objective: 3

Topic: Objectives of Accounting and Financial Reporting for State and Local Governmental Units

Feedback: GASB utilizes two additional elements that do **not** appear in the balance sheets of nongovernmental organizations:  deferred inflows and deferred outflows of resources. The most common deferred inflows are taxes that have been deferred to a future period when they are expected to be available for operations.

1. The GASB and the FASB are parallel bodies under the oversight of the Financial Accounting Foundation (FAF)

Answer: True

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The GASB and the FASB are parallel bodies under the oversight of the FAF. The FAF appoints the members of the two boards and provides financial support.

**Multiple Choice Questions**

1. Governmental funds include:

A) Special revenue funds

B) Internal service funds

C) Enterprise funds

D) Agency funds

Answer: A

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Government funds include permanent, debt service, capital project, special revenue and general.

1. Which of the following has established a “Hierarchy of GAAP”:
   1. Financial Accounting Standards Board.
   2. Federal Accounting Standards Advisory Board
   3. Governmental Accounting Standards Board
   4. All of the above have established a hierarchy

Answer: D

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The FASB, FASAB and GASB all have hierarchies of GAAP for entities falling within their jurisdictions.

1. The term “proprietary funds” applies to:

A) all funds that use accrual accounting.

B) enterprise and internal service funds only.

C) enterprise, internal service, and private-purpose trust funds.

D) none of the above answers are correct.

Answer: B

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Proprietary funds include internal service and enterprise funds.

1. The term “fiduciary funds” applies to:

A) enterprise and internal service funds.

B) private-purpose trust, investment trust, pension trust and agency funds

C) pension, investment trust and enterprise funds

D) enterprise, internal service, and private-purpose trust funds.

Answer: B

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Fiduciary funds include private-purpose trust, investment trust, pension trust and agency funds.

1. The GASB sets accounting standards for all of the following except:
2. State and local governments
3. Component units owned or controlled by governments
4. Governmentally related not-for-profit universities
5. Nongovernmental not-for-profit hospital

Answer: D

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The GASB sets accounting and financial reporting standards for state and local governments in the U.S., governmentally related not-for-profit organizations, such as colleges and universities, health care entities, museums, libraries, and performing arts organizations that are owned or controlled by governments.

1. Which of the following fund types is present in every general-purpose government?

A) Permanent

B) Special revenue

C) General

D) Capital projects

Answer: C

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Every government will have a single General Fund, but may have multiple funds in each of the other categories.

1. Which of the following is a proprietary fund?

A) Internal service

B) Investment trust

C) Permanent

D) Special revenue

Answer: A

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Proprietary funds include internal service and enterprise funds.

1. Which of the following is **not** a fiduciary fund?

A) Agency

B) Pension trust

C) Permanent

D) Private-purpose trust

Answer: C

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Fiduciary funds include private-purpose trust, investment trust, pension trust and agency funds.

1. Which of the following is a governmental fund?
2. Internal service
3. Agency
4. Enterprise
5. Special revenue

Answer: D

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Government funds include permanent, debt service, capital project, special revenue and general.

1. Which of the following is **not** one of the objectives of Federal Financial Reporting, as outlined in SFFAC 1, which was issued by the FASAB?
2. Financial reporting should enable evaluation of the success rate of programs.
3. Financial reporting should enable evaluation of the service efforts, costs and accomplishments of the reporting entity.
4. Financial reporting should reveal whether financial systems and controls are adequate.
5. Financial reporting should demonstrate accountability with regard to raising and expending money.

Answer: A

Learning Objective: 3

Topic: Objectives of Financial Reporting by the Federal Government

Feedback: SFFAC 1 outlines four objectives that should be followed in federal financial reporting. Budgetary integrity indicates that financial reporting should demonstrate accountability with regard to the raising and expending of moneys. Operating performance, suggests that financial reporting should enable evaluation of the service efforts, costs and accomplishments of the federal agency. Stewardship reflects the concept that financial reporting should enable an assessment of the impact on the nation of the government’s operations and investments. Systems and controls, indicates that financial reporting should reveal whether financial systems and controls are adequate.

1. The FASAB has the authority to establish accounting and financial reporting standards for:
2. State and local governments
3. Investor owned business
4. Federal government
5. Public not-for-profits

Answer: C

Learning Objective: 3

Topic: Sources of GAAP

Feedback: Accounting and financial reporting standards for the federal governments are published by the FASAB. The standards are technically “recommendations” since, as a sovereign nation, the federal government cannot relegate authority to an independent board.

1. The FASB has the authority to establish accounting and financial reporting standards for:
2. Federal government
3. Private not-for-profits
4. Public not-for-profits
5. State and local governments

Answer: B

Learning Objective: 3

Topic: Sources of GAAP

Feedback: Accounting and financial reporting standards for investor-owned businesses and private not-for-profit organizations are set by the Financial Accounting Standards Board (FASB)

1. The GASB has the authority to establish accounting and financial reporting standards for:
2. State governments
3. Private not-for-profits
4. Federal government
5. None of the above

Answer: A

Learning Objective: 4

Topic: Sources of GAAP

Feedback: The GASB sets accounting and financial reporting standards for state and local governments in the U.S., governmentally related not-for-profit organizations, such as colleges and universities, health care entities, museums, libraries, and performing arts organizations that are owned or controlled by governments.

1. In order for a fund to exist, there must be:
2. A fiscal entity; assets set aside for a specific purpose
3. A double-entry accounting entity
4. A & B are optional and not required
5. Both A & B are required

Answer: D

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Two conditions must be met for a fund to exist. First, there must be a fiscal entity; assets set aside for specific purposes and second, there must be a double-entry accounting entity created to account for the fiscal entity.

1. Which fund category must change from modified accrual to accrual basis when preparing government-wide financial statements?
2. Governmental
3. Proprietary
4. Fiduciary
5. A & B only

Answer: A

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Governmental funds are prepared using the current financial resources measurement focus and the modified accrual basis of accounting and must change to accrual basis accounting when preparing the government-wide financial statements.

1. Which of the following use current financial resources measurement focus?
2. Fiduciary fund statements
3. Governmental fund statements
4. Proprietary fund statements
5. Internal Service fund statements

Answer: B

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. Fiduciary and proprietary funds use the economic resources measurement focus and accrual accounting. Internal service is a proprietary fund.

1. Which of the following best describes how many funds a government should use?
2. One for each revenue source
3. Two at a minimum; the General Fund and one enterprise fund
4. As many as necessary to fulfill legal requirements and sound financial administration
5. None of the above

Answer: C

Learning Objective: 4

Topic: Number of Funds Required

Feedback: The GASB Summary Statement of Principles states that governmental units should establish and maintain those funds required by law and sound financial administration.

1. Which of the following would **not** be included in FASB Statement of Financial Accounting Concepts #4, which identifies the information needs of the users of non-business financial statements?
2. Assessing services provided by a non-business organization and its ability to continue to provide those services
3. Format and content of financial statements
4. Assessing managements’ stewardship and performance
5. Evaluation of an organization’s resources, obligations and effects of changes in net resources

Answer: B

Learning Objective:3

Topic: Objectives of Financial Reporting by Not-for-Profit Entities

Feedback: In Statement of Financial Accounting Concepts #4, the FASB identifies the information needs of the users of nonbusiness financial statements. These include providing information that is useful to present and potential resource providers in the following; Making decisions about the allocation of resources to those organizations. Assessing the services that a nonbusiness organization provides and its ability to continue to provide those services. Assessing management’s stewardship and performance and evaluating an organizations economic resources, obligations, and effects of changes in those net resources.

1. The Governmental Accounting Standards Board has been given authority to establish accounting and financial reporting standards for:

A) all governmental units and agencies.

B) federal, state, and local governments and governmentally related utilities, authorities, hospitals, and colleges and universities..

C) state and local governmental entities, and governmentally related utilities, authorities, hospitals, and colleges and universities.

D) all governmental units and all not-for-profit organizations.

Answer: C

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The GASB sets accounting and financial reporting standards for state and local governments in the U.S., governmentally related not-for-profit organizations, such as colleges and universities, health care entities, museums, libraries, and performing arts organizations that are owned or controlled by governments.

1. Which of the following characteristics would **not** define an organization as governmental?

A) The power to enact and enforce a tax levy.

B) The potential for unilateral dissolution by a government with the net resources reverting to a government.

C) The receipt of grant money from a state or local government for the purpose of providing services to the public.

D) All of the above.

Answer: C

Learning Objective: 3

Topic: Definition of Government

Feedback: Public corporations and bodies corporate and politic are governmental organizations. Other organizations are governmental organizations if they have one or more of the following characteristics: (a) Popular elections of officers or appointment (or approval) of a controlling majority of the members of the organization’s government body by officials of one or more state or local governments; (b) The potential for unilateral dissolutions by a government with the net resources reverting to a government; or (c) The power to enact and enforce a tax levy. Also, organizations are presumed to be governmental if they have the ability to issue directly debt that pays interest exempt from federal taxation.

1. Level “A” GAAP for The University of Virginia, a public institution, would be established by the:

A) Financial Accounting Standards Board.

B) Governmental Accounting Standards Board.

C) American Institute of Certified Public Accountants.

D) National Association of College and University Business Officers.

Answer: B

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The University of Virginia is a governmentally related university. The Governmental Accounting Standards Board sets accounting and financial reporting standards for state and local governments in the U.S., governmentally related not-for-profit organizations, such as colleges and universities, health care entities, museums, libraries, and performing arts organizations that are owned or controlled by governments. So GASB would establish level “A” GAAP for the University.

1. Under the modified accrual basis of accounting, expenditures should be recognized when:

A) they are authorized by the budget ordinance.

B) they are paid.

C) they are measurable and can be financed by the revenues of the current period.

D) the fund liability is incurred.

Answer: D

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Under the modified accrual basis of accounting, expenditures should be recognized in the period in which the fund liability is incurred.

1. Fiduciary funds use the:

A) economic resources measurement focus and modified accrual basis of accounting.

B) current financial resources measurement focus and accrual basis of accounting.

C) economic resources measurement focus and accrual basis of accounting.

D) none of the above, the fiduciary funds have no revenues.

Answer C

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Fiduciary funds use the economic resources measurement focus and accrual basis of accounting.

1. Proprietary funds use the:
2. current financial resources measurement focus and modified accrual basis of accounting
3. economic resources measurement focus and accrual basis of accounting.
4. economic resources measurement focus and modified accrual basis of accounting.
5. current financial resources measurement focus and accrual basis of accounting.

Answer: B

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Proprietary funds use the economic resources measurement focus and accrual basis of accounting.

1. Governmental funds use the:

A) economic resources measurement focus and accrual basis of accounting.

B) current financial resources measurement focus and accrual basis of accounting.

C) economic resources measurement focus and modified accrual basis of accounting.

D) current financial resources measurement focus and modified accrual basis of accounting

Answer: D

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Governmental funds use the current financial resources measurement focus modified accrual basis of accounting.

1. Government-wide statements use the:

A) current financial resources measurement focus and accrual basis of accounting.

B) economic resources measurement focus and modified accrual basis of accounting.

C) economic resources measurement focus and accrual basis of accounting.

D) none of the above.

Answer: C

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

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

1. Governmental funds do **not** include:

A) Special revenue funds

B) Agency funds

C) Debt service funds

D) The General fund

Answer: B

Learning Objective: 4

Topic: Governmental Funds

Feedback: Governmental funds include permanent, debt service, capital project, special revenue and general.

1. Which of the following organizations has authority to establish accounting and financial reporting standards for the federal government?

A) Federal Accounting Standards Advisory Board.

B) Office of Management and Budget.

C) Governmental Accounting Standards Board.

D) None of the above; no one has been granted authority to set standards for the federal government

Answer: A

Learning Objective: 3

Topic: Sources of GAAP

Feedback: Accounting and financial reporting standards for the federal governments are published by the FASAB. The standards are technically “recommendations” since, as a sovereign nation, the federal government cannot relegate authority to an independent board.

1. Which of the following is most correct with regard to Management's Discussion and Analysis (MD&A)?

A) State and local governments are required to provide an MD&A.

B) Federal agency financial reports are required to provide an MD&A.

C) Both state and local governments and federal agencies are encouraged, but not required to provide an MD&A.

D) Both state and local governments and federal agencies are required to provide an MD&A.

Answer: D

Learning Objective: 3

Topic: Management's Discussion and Analysis

Feedback: Management’s Discussion and Analysis is required by federal (SFFAC 3) and state and local governments (a component of RSI).

1. GASB Concepts Statement No. 3, defines methods of presenting information in financial reports. Concepts Statement No. 3 states that:

A) notes to the financial statements may not include management’s objective explanations.

B) required supplementary information should be objective but may also include predictions or subjective assessments if management deems it necessary for understanding of the financial statements.

C) disclosure in the notes is not an adequate substitute for recognition in the financial statements.

D) All of the above are correct.

Answer: C

Learning Objective: 3

Topic: Objectives of Accounting and Financial Reporting for State and Local Governmental Units

Feedback: Concepts Statement No. 3 states that the notes to the financial statements are intended to enhance the understanding of items appearing in the financial statements but are not a substitute for recognition when a transition or event can be measured with sufficient reliability.

1. According to the GASB, Capital assets:

A) must be reported in government-wide statements but are not reported in any of the fund financial statements.

B) must be reported in government-wide statements and in proprietary fund financial statements.

C) are **not** to be reported in either government-wide or fund financial statements.

D) are to be reported but **not** depreciated in government-wide and fund financial statements.

Answer: B

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Proprietary and fiduciary funds and government-wide statements are prepared using the economic resource measurement focus and accrual accounting. Statements of Net Position prepared using the economic resource focus reports the balances in capital assets and long-term liabilities.

1. Long-term debt of a governmental unit would be reported in the:

A) government-wide financial statements and proprietary fund financial statements.

B) government-wide financial statements only.

C) debt service funds of governmental fund financial statements and government-wide financial statements.

D) notes to the financial statements only.

Answer: A

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Government-wide statements are prepared using the economic resource measurement focus and accrual accounting. Balance sheets prepared using the economic resource focus reports the balances in fixed assets and long-term liabilities.

1. A city government collects local sales taxes legally restricted to pay for the construction of a new courthouse. Which fund should account for the receipt of the sales taxes?

A) Special revenue fund

B) Capital projects fund

C) Private-purpose trust fund

D) General fund

Answer: B

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays. As such, it accounts for the purchase or construction of major capital improvements, except those purchased or constructed by a proprietary or fiduciary fund.

1. A city government collects local sales taxes legally restricted to pay for the hiring of teachers for hearing impaired school children. Which fund should account for the receipt of the sales taxes?

A) Special revenue fund

B) Capital projects fund

C) Private-purpose trust fund

D) General fund

Answer: A

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for a specified purpose other than debt service or capital projects. These include activities funded by federal or state grants or by taxes specifically restricted to certain activities.

1. A city government makes its semiannual payment of interest on revenue bonds issued to pay for the construction of additional public transit stations. Which fund would account for the payment?

A) Debt service fund

B) Capital projects fund

C) Enterprise fund

D) Internal service fund

Answer: C

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Enterprise funds are used when resources are provided primarily through the use of sales and service charges to parties external to the government. Examples of enterprise funds include utilities, airports, swimming pools and transit systems.

1. A city government sells police cars no longer in use. No restrictions have been placed on the proceeds. Which fund should account for the receipt?

A) General fund

B) Capital projects fund

C) Enterprise fund

D) Debt service fund

Answer: A

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: The general fund would account for the proceeds of the sale. The general fund accounts for most of the basic services provided by the government. It accounts for and reports all financial resources not accounted for and reported in another fund. Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays. Enterprise funds are used when resources are provided primarily through the use of sales and service charges to parties external to the government. Debt service funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, other than interest or principal on proprietary or fiduciary activities.

1. Under GASB, accrual accounting is used for:

A) government-wide financial statements only.

B) government-wide financial statements and proprietary fund financial statements only.

C) government-wide, proprietary fund, and fiduciary fund financial statements only.

D) government-wide and all fund financial statements

Answer: C

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Government-wide, proprietary fund, and fiduciary fund statements are prepared using accrual accounting. Governmental funds use modified accrual accounting.

1. Under GASB, modified accrual accounting would be found in the:

A) government-wide financial statements only.

B) governmental fund financial statements only.

C) governmental and fiduciary fund financial statements only.

D) governmental, proprietary, and fiduciary fund financial statements but **not** in the government-wide financial statements

Answer: B

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Governmental funds use modified accrual accounting. Government-wide, proprietary fund, and fiduciary fund statements are prepared using accrual accounting.

1. Which of the following is **not** a fiduciary fund type?

A) Agency.

B) Expendable trust.

C) Private-purpose trust.

D) Investment trust.

Answer: B

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Fiduciary funds include private purpose trust, investment trust, pension trust and agency funds.

1. Level "A" GAAP for Cook County Hospital, a public hospital, would be established by the:

A) Governmental Accounting Standards Board.

B) Financial Accounting Standards Board.

C) Hospital Financial Management Association.

D) American Institute of Certified Public Accountants.

Answer: A

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The hospital is a public hospital. The Governmental Accounting Standards Board sets accounting and financial reporting standards for state and local governments in the U.S., governmentally related not-for-profit organizations, such as colleges and universities, health care entities, museums, libraries, and performing arts organizations that are owned or controlled by governments. So GASB would be responsible for level “A” GAAP.

1. Which of the following is correct regarding fund classifications?

A) Governmental funds include the general, special revenue, internal service, capital projects, and permanent.

B) Proprietary funds include enterprise, internal service, and private-purpose.

C) Fiduciary funds include agency and enterprise funds.

D) None of the above.

Answer: D

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Governmental funds include permanent, debt service, capital project, special revenue and general. Proprietary funds include internal service and enterprise. Fiduciary funds include private purpose trust, investment trust, pension trust and agency.

1. Notre Dame University, a private institution, has level “A” GAAP established by the:

A) American Institute of Certified Public Accountants.

B) Governmental Accounting Standards Board.

C) National Association of College and University Business Officers.

D) Financial Accounting Standards Board.

Answer: D

Learning Objective: 3

Topic: Sources of GAAP

Feedback: This is a private not-for-profit. Accounting and financial reporting standards for profit-seeking businesses and for and for nongovernmental not-for-profit organizations are set by the Financial Accounting Standards Board (FASB).

1. Long-term debt to be paid from proprietary funds is reported as a liability in

A) the proprietary fund Statement of Net assets (or Net Position).

B) the government-wide Statement of Net assets (or Net Position).

C) both A and B.

D) neither A nor B.

Answer: C

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Proprietary and government-wide statements are both prepared using the economic resource measurement focus and accrual accounting. Balance sheets prepared using the economic resource focus reports the balances in fixed assets and long-term liabilities. No adjustment is necessary when proprietary funds are combined with other funds in the government-wide statements.

1. Which of the following are the governmental funds?

A) General, special revenue, debt service, capital projects, private purpose.

B) General, special revenue, debt service, capital projects, permanent.

C) General, special revenue, debt service, capital projects, internal service.

D) None of the above.

Answer: B

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Governmental funds include permanent, debt service, capital project, special revenue and general.

1. Which of the following is not an objective of federal financial reporting?

A) Budgetary Integrity

B) Increase Taxpayer Awareness

C) Stewardship

D) Operating Performance

Answer: B

Learning Objective: 3

Topic: Objectives of Financial Reporting by the Federal Government

Feedback: SFFAC 1 Outlines four objectives that should be followed in federal financial reporting; budgetary integrity, operating performance, stewardship and systems and controls.

1. Which of the following funds is a Fiduciary Fund?

A) Debt Service Fund

B) Enterprise Fund

C) Internal Service Fund

D) Pension Trust Fund

Answer: D

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Fiduciary funds include private purpose trust, investment trust, pension trust and agency funds.

1. Which of the following statement(s) are **not** included in the proprietary funds for a government entity:

A) Statement of Revenues, Expenditures, and Changes in Fund Balances

B) Statement of Cash Flows

C) Statement of Net Position

D) All of the above are included

Answer: A

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Proprietary funds prepare the Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position and Statement of Cash Flows.

1. Capitalized fixed assets are reported in which of the following fund-basis statements?

A) Proprietary fund

B) Agency fund

C) Governmental fund

D) Fiduciary fund

Answer: A

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Proprietary and fiduciary funds and government-wide statements are prepared using the economic resource measurement focus and accrual accounting. Balance sheets prepared using the economic resource focus reports the balances in fixed assets and long-term liabilities. Governmental funds are prepared using the current financial resource measurement focus and modified accrual accounting. Long-term assets and long-term debt are not recognized.

1. Which of the following fund types uses modified accrual accounting?

A) Enterprise

B) Capital Project

C) Pension Trust

D) Internal Service

Answer: B

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Governmental funds use modified accrual accounting. Capital project funds are government funds. Government-wide, proprietary fund, and fiduciary fund statements are prepared using accrual accounting. Enterprise and internal service funds are proprietary funds and a pension trust is a fiduciary fund.

1. Which of the following fund types uses accrual accounting?

A) Debt Service

B) Special Revenue

C) Permanent

D) Investment Trust

Answer: D

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Government-wide, proprietary fund, and fiduciary fund statements are prepared using accrual accounting. Investment trust is a fiduciary fund. Governmental funds use modified accrual accounting. Debt service, special revenue and permanent funds are all governmental funds.

1. A permanent fund classified under governmental funds…

A) Accounts for resources that are legally restricted so only earnings, not principal, may be expended, and for purposes to benefit the government and its citizenry.

B) Accounts for most of the basic services provided by the governmental unit.

C) Accounts for financial resources intended for major capital projects

D) Accounts for services provided by one department of a government to another

Answer: A

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Permanent funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs.

1. The general fund classified under governmental funds…

A) Accounts for resources that are legally restricted so only earnings, not principal, may be expended, and for purposes to benefit the government and its citizenry.

B) Accounts for most of the basic services provided by the governmental unit.

C) Accounts for financial resources intended for major capital projects

D) Accounts for services provided by one department of a government to another

Answer: B

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: The general fund accounts for most of the basic services provided by the government. It accounts for and reports all financial resources not accounted for and reported in another fund.

1. A capital projects fund classified under governmental funds…

A) Accounts for resources that are legally restricted so only earnings, not principal, may be expended, and for purposes to benefit the government and its citizenry.

B) Accounts for most of the basic services provided by the governmental unit.

C) Accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital projects

D) Accounts for services provided by one department of a government to another

Answer: C

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays.

1. Which of the following funds is **not** a Fiduciary Fund?

A) Investment Trust Fund

B) Private Purpose Trust Fund

C) Permanent Fund

D) Pension Fund

Answer: C

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Fiduciary funds include private-purpose trust, investment trust, pension trust and agency funds. Permanent funds are governmental funds.

1. The \_\_\_\_\_\_\_ sets the accounting and financial reporting standards for both state and local governments and public not-for-profits.

A) FASAB

B) FASB

C) GASB

D) AICPA

Answer: C

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The GASB sets accounting and financial reporting standards for state and local governments in the U.S., governmentally related not-for-profit organizations, such as colleges and universities, health care entities, museums, libraries, and performing arts organizations that are owned or controlled by governments.

1. The \_\_\_\_\_\_\_\_\_\_\_ is the government’s official annual report prepared and published as a matter of public record.

A) complete audited financial report

B) comprehensive annual financial report

C) governmental annual financial report

D) independent auditor’s report

Answer: B

Learning Objective: 4

Topic: Comprehensive Annual Financial Report

Feedback: The Comprehensive Annual Financial Report (CAFR) is the government’s official annual report prepared and published as a matter of record.

1. State and local governmental funds are organized into three categories including:

A) governmental, proprietary, and restricted

B) proprietary, fiduciary, and restricted

C) governmental, fiduciary, and restricted

D) governmental, proprietary, and fiduciary

Answer: D

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Funds used by state and local governments include fiduciary, proprietary and governmental.

1. The \_\_\_\_\_\_ Fund accounts for all resources other than those required to be accounted for in other funds.

A) General

B) Enterprise

C) Agency

D) Special revenue

Answer: A

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: The general fund accounts for most of the basic services provided by the government. It accounts for and reports all financial resources not accounted for and reported in another fund.

1. The \_\_\_\_\_\_ Fund accounts for and reports the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purpose other than debt service or capital projects.

A) Agency

B) Enterprise

C) Special revenue

D) General

Answer: C

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for a specified purpose other than debt service or capital projects. These include activities funded by federal or state grants or by taxes specifically restricted to certain activities.

1. The \_\_\_\_\_\_ Funds are used when resources are provided primarily through the use of sales and service charges to parties external to the government and it is the intent of the government to measure revenues, expenses and changes in net position.

A) Agency

B) Enterprise

C) General

D) Special revenue

Answer: B

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Enterprise funds are used when resources are provided primarily through the use of sales and service charges to parties external to the government. Examples of enterprise funds include utilities, airports, swimming pools and transit systems.

1. The \_\_\_\_\_\_ Funds are used to account for situations in which the government is acting as a collecting/disbursing agent.

A) Agency

B) Enterprise

C) General

D) Special revenue

Answer: A

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Agency funds are used to account for situations in which the government is acting as a collecting/disbursing agent. An example would be a county tax agency fund, where the country collects and disburses property taxes for other taxing units within the county, such as independent school districts.

1. What basis of accounting would the Enterprise Fund use?

A) Accrual

B) Modified Accrual

C) Cash

D) Expended Accrual

Answer: A

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Enterprise funds are proprietary funds and use accrual accounting.

1. What are Enterprise funds used for?

A) To account for pension and employee benefit funds for which the governmental unit is the trustee.

B) To account for most of the basic services provided by the governmental units.

C) To report resources that are legally restricted so only earnings, not principal, may be expended, and for purposes to benefit the government and its citizenry

D) To account for resources provided primarily through the use of sales and service charges to parties external to the government.

Answer: D

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Enterprise funds are used when resources are provided primarily through the use of sales and service charges to parties external to the government. Examples of enterprise funds include utilities, airports, swimming pools and transit systems.

1. Which of the following is an environmental difference between governments and for-profit business enterprises?

A) Relationship with stakeholders

B) Donor restricted assets

C) Fiduciary responsibilities

D) Both B and C

Answer: A

Learning Objective: 2

Topic: Objectives of Accounting and Financial Reporting for State and Local governmental units.

Feedback: The GASB published a white paper identifying five environmental differences between governments and for-profit businesses. They are organizational purpose, sources of revenues, potential for longevity, relationship with stakeholders and the role of the budget.

1. How many General Funds may a government have?

A) One.

B) As many as is required to fulfill legal obligations.

C) A varying number, depending on the annual needs of the government.

D) None of the above.

Answer: A

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Every government will have a single general fund but may have multiple funds in each of the other categories.

1. The Financial Accounting Standards Board (FASB) is the standard setting organization for which of the following reporting organizations?

A) Private not-for-profits

B) Public not-for-profits

C) Investor owned businesses

D) A and C are both correct.

Answer: D

Learning Objective: 3

Topic: Sources of GAAP

Feedback: Accounting and financial reporting standards for profit-seeking businesses and for nongovernmental not-for-profit organization are set by the FASB

1. The fund basis statements for governmental funds are presented using the

A) Economic Resources Measurement focus and the Accrual Basis of Accounting.

B) Current Financial Resources Measurement focus and the Modified Accrual Basis of Accounting.

C) Current Financial Resources Measurement focus and the Accrual Basis of Accounting.

D) Economic Resources Measurement focus and the Modified Accrual Basis of Accounting.

Answer: B

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting.

1. What type of fund is used when resources are provided mainly through business-like transactions to parties external to the government?

A) Internal Service Funds

B) Capital Projects Funds

C) Agency Funds

D) Enterprise Funds

Answer: D

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Enterprise funds are used when resources are provided primarily through the use of sales and service charges to parties external to the government. Examples of enterprise funds include utilities, airports, swimming pools and transit systems.

1. Financial reports for state and local governments are well suited for all the following EXCEPT?

A) Assessing financial condition and results of operations.

B) Comparing actual results with the legally adopted budget.

C) Measuring the effectiveness of government services such as police and fire protection.

D) Assisting in determining compliance with finance-related laws and regulations.

Answer: C

Learning Objective: 3

Topic: Objectives of Accounting and Financial Reporting for State and Local Governmental Units.

Feedback: One difficulty governments have in meeting the information needs of citizens is that traditional financial statements are not designed to evaluate the government’s effectiveness in delivering services.

1. Which of the following funds is used to account for the payment of principal and interest of general long term debt of a government?

A) Capital Projects Fund

B) Internal Service Fund

C) Agency Fund

D) Debt Service Fund

Answer: D

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Debt service funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, other than interest or principal on proprietary or fiduciary activities.

1. The GASB is under the oversight of:

A) GAO.

B) FASAB.

C) FAF.

D) FASB.

Answer: C

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The GASB and the FASB are parallel bodies under the oversight of the Financial Accounting Foundation (FAF). The FAF appoints the members of the two boards and provides financial support to the boards.

1. Which of the following are nonauthorative sources that a government may use if the government if the accounting treatment of a transaction is not addressed in one of the authoritative sources?

A) GASB Concept Statements

B) GASB Technical Bulletins

C) Literature of the American Institute of Certified Public Accountants (AICPA) specifically cleared by the GASB

D) GASB Implementation Guides

Answer: A

Learning Objective: 3

Topic: Sources of GAAP

Feedback: GASB Concept Statements are a non-authoritative source for guidance which may be used if the accounting treatment is not specified within Category A or B sources.

1. Which of the following is a Category A source of authoritative GAAP for state and local governments?

A) GASB Technical Bulletins

B) Literature of the American Institute of Certified Public Accountants (AICPA) specifically cleared by the GASB

C) GASB Implementation Guides

D) GASB Statements (and Interpretations)

Answer: D

Learning Objective: 3

Topic: Sources of GAAP

Feedback: GASB Statements and Interpretations are Category A GAAP. GASB Technical Bulletins, Literature of the American Institute of Certified Public Accountants (AICPA) specifically cleared by the GASB and GASB Implementation Guides are all Category B GAAP

1. In FASB’s *Statement of Financial Accounting Concepts No. 4,* the FASB identifies the information needs of the users of nonbusiness financial statements.

Which of the following is not one of those needs?

A) Making decisions about the allocation of resources to those organizations

B) Assessing the services that a nonbusiness organization provides and its ability to continue to provide those services

C) Assessing cash flow and the entity’s ability to make current payments

D) Evaluating an organization’s economic resources, obligations, and effects of changes in those net resources.

Answer: C

Learning Objective: 3

Topic: Objectives of Financial Reporting by Not-for-Profit Entities

Feedback: Answer Answers A, B and D are all information needs of users of nonbusiness financial statements. The fourth is Assessing management’s stewardship and performance. Assessing cash flow was not one of the items identified in Statement #4.

1. What does the acronym CAFR stand for?

A) Comprehensive Annual Financial Report

B) Consolidated Annual Financial Report

C) Comprehensive Audited Financial Report

D) Consolidated Annual Federal Report

Answer: A

Learning Objective: 4

Topic: State and Local Government Financial Reporting

Feedback: CAFR stands for Comprehensive Annual Financial Report

1. Which of the following statements is false?

A) A comprehensive annual financial report (CAFR) is the government’s official annual report prepared and published as a matter of public record.

B) A CAFR is not required for entities with only a general fund.

C) The CAFR contains introductory material, an auditor’s report, certain RSI, schedules necessary to demonstrate legal compliance, and statistical tables.

D) Governments have two levels of financial statement reporting. The first is the fund-basis financial statements and the second is the government-wide statements.

Answer: B

Learning Objective: 4

Topic: State and Local Government Financial Reporting

Feedback: A CAFR is the government’s official annual report prepared and published as a matter of public record. It is required reporting for all state and local government reporting entities.

1. Which of the following statements regarding fund accounting is true?

A) A typical town or county government has approximately the same number of funds as cities and states.

B) Fund-basis statements are presented for three categories of activities: government-wide, proprietary, and fiduciary

C) Each fund requires its own journal, but all funds post the information to a common general ledger.

D) While a business will typically have a single general ledger, the activities of governments are broken down into accounting subunits called *funds*.

Answer: D

Learning Objective: 4

Topic: State and Local Government Financial Reporting

Feedback: Each fund has its own ledger and general journal in comparison with commercial enterprise typically record all activities in a single ledger.

1. Which of the following does **not** use the economic resources measurement focus?

A) Fiduciary funds

B) Governmental funds

C) Proprietary funds

D)  Government-wide funds

Answer: B

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Governmental funds have a current financial resources measurement focus and the modified accrual basis of accounting. Government-wide, proprietary fund, and fiduciary fund statements have an economic resources measurement focus and accrual basis of accounting

1. Which of the following is **not** true with respect to a transaction that is nonexchange in nature?

A) They are activities where benefits received are in direct proportion to the fees charged for goods or services.

B) They are activities heavily financed by taxes and other involuntary contributions from people and organizations who do not receive benefits directionally proportional to the contribution.

C) They are activities undertaken in response to the needs of the public.

D) They are activities where recipients may pay less than the cost of the goods or service received.

Answer: A

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Nonexchange transactions are activities undertaken in response to the needs of the public. Activities reported in governmental funds are heavily financed by taxes and involuntary contributions from persons and organizations who do not receive services in direct proportion to the contribution they make..

1. GASB standards provide that accounting systems of governmental funds are designed to measure:

A) The extent to which financial resources obtained during a period are sufficient to cover claims incurred during that period against financial resources

B) The acquisition and disposal of net assets

C) The net financial resources available for future periods.

D) The receipt and expenditure of resources. These resources are generally restricted to current assets and liabilities.

Answer: D

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: GASB standards provide that accounting systems of governmental funds are designed to measure (a) the extent to which financial resources obtained during a period are sufficient to cover claims incurred during that period against financial resources and (b) the net financial resources available for future periods. Activities of governmental funds are said to be expendable, that is, the focus is on the receipt and expenditure of resources. These resources are generally restricted to current assets and liabilities.

1. Which of the following is an attribute of modified accrual accounting?

A) Long-term assets and depreciation are recorded in the governmental fund balance sheet.

B) Revenues are generally recognized when *measurable* and *available* to finance the expenditures of the current period

C) Long-term debt is recorded in the governmental fund balance sheet

D) Expenses are recorded on the Statement of Changes in Fund Balance

Answer: B

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Under modified accrual accounting, revenues are generally recognized when measurable and available to finance the expenditures of the current period. Expenditures, not expenses, are recognized in the period in which the fund liability is incurred. Long-term assets and long-term debt are generally not recorded, although there are some exceptions.

1. Which of the following is true with respect to the government-wide statements?

A) Government-wide statements are prepared using the accrual basis of accounting, including the recording of fixed assets and long-term debt.

B) Government-wide statements are prepared using the modified accrual basis of accounting and the c**urrent financial resources measurement focus**

**C)** Government-wide statements are prepared using the modified accrual basis of accounting and an economic resource measurement focus

D) Government-wide statements use the c**urrent financial resources measurement focus and the accrual basis of accounting.**

**Answer: A**

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: Governmental-type activities are reported in the government-wide statements using the accrual basis of accounting, including fixed assets and long-term debt.

1. **Which of the following are governmental funds?**

**A) Agency and Permanent**

**B) Enterprise and Debt Service**

**C) Debt Service and Capital Project**

**D) Internal Service and Special Revenue**

Answer: C

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Governmental funds include permanent, debt service, capital project, special revenue and general.

**Short Answer Questions**

1. Contrast revenue recognition under the accrual and modified accrual bases of accounting.

**Answer:** Under accrual accounting, revenues are recognized when earned and realizable. Under modified accrual accounting, revenues should be recognized when measurable and available to finance expenditures of the current period.

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: The accrual basis of accounting recognizes revenues when they are earned and expect to be realized. Expenses are recognized when the related goods or services are used up. Modified accrual accounting recognizes revenues when measurable and available to finance the expenditures of the current period. Expenditures, not expenses, are recognized in the period in which the fund liability is incurred.

1. What is the difference between recording an expenditure under modified accrual accounting and an expense under accrual accounting?

**Answer**: Under modified accrual accounting, expenditures are recorded in the period the fund liability is incurred, and expenses are recorded when related goods or services are used.

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: The accrual basis of accounting recognizes revenues when they are earned and expect to be realized. Expenses are recognized when the related goods or services are used up. Modified accrual accounting recognizes revenues when measurable and available to finance the expenditures of the current period. Expenditures, not expenses, are recognized in the period in which the fund liability is incurred.

1. Identify the accounting standard setting bodies for U.S. commercial, private not-for-profits, public not-for-profits, state and local governments, and the federal government.

**Answer:**

Commercial enterprises: The Financial Accounting Standards Board establishes accounting principles for all commercial enterprises in the U.S.

Private Not-for-profits: The Financial Accounting Standards Board establishes accounting principles for all Private Not-for-Profits in the U.S.

Public Not-for-profits: The Governmental Accounting Standards Board establishes accounting principles for all governmentally related not-for-profit organizations in the U.S.

State and Local Governments: The Governmental Accounting Standards Board establishes accounting principles for all U.S. state and local governments.

Federal government: The Federal Accounting Standards Advisory Board establishes accounting principles for the federal government and its agencies.

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The FASAB sets standards for the federal government, GASB sets standards for state and local governments and public not-for-profits, and FASB sets standards for private not-for-profits and investor-owned businesses

1. Which reporting organizations fall under the following standard-setting bodies?

FASAB

GASB

FASB

**Answer**:

FASAB: Federal government

GASB: State and local governments and public not-for-profits

FASB: Private not-for-profits and investor owned businesses

Learning Objective: 3

Topic: Sources of GAAP

Feedback: The FASAB sets standards for the federal government, GASB sets standards for state and local governments and public not-for-profits, and FASB sets standards for private not-for-profits and investor-owned businesses

1. Contrast the economic resources measurement focus and the current financial resources measurement focus with regard to the accounting treatment of capital assets.

**Answer:** Under the economic resources measurement focus, capital assets are capitalized and depreciated. Under the current financial resources measurement focus, capital assets are not capitalized or depreciated, but are charged to expenditures when received.

Learning Objective:1

Topic: Measurement focus and basis of accounting

Feedback: Under the economic resources measurement focus, capital assets are capitalized and depreciated. Under the current financial resources measurement focus, capital assets are not capitalized or depreciated, but are charged to expenditures when received.

1. What are the five environmental factors relating to how governments are different from commercial businesses as described by GASB in a white paper entitled: Why *Governmental Accounting and Financial Reporting Is – and Should Be – Different:*

**Answer**: The five environmental differences are:

**Organizational Purpose**

Governments exist for the well-being of citizens by providing public services. Unlike businesses, profit is not an objective so a measure other than net income is needed. In addition, the stakeholders and the information they require are very different. Governments report information that is far more disaggregated than a commercial enterprise.

**Sources of Revenue**

Governments derive many of their resources from taxes. Individuals and businesses pay taxes because they are legally bound. Since there is no “product or service” being conveyed at the time of payment, it is difficult determine when to recognize revenue.

**Potential for Longevity**

Governments rarely go out of business, so they have an accounting focus with a long term view of operations and the sustainability of services and the ability of meet future demand.

**Relationship with Stakeholders**

Governments have an obligation to demonstrate accountability for public funds. Fund accounting is used by governments to provide assurance that resources are used according to legal or donor restrictions.

**Role of the Budget**

Budgets are expressions of public policy and often carry the authority of law. Public officials must stay within their budgets. Required budget vs. actual comparisons indicate the degree of compliance in this area.

Learning Objective: 2

Topic: Generally Accepted Accounting Principles

Feedback: The GASB published a white paper identifying five environmental differences between governments and for-profit businesses. They are organizational purpose, sources of revenues, potential for longevity, relationship with stakeholders and the role of the budget. Organizational Purpose: Governments exist for the well-being of citizens by providing public services. Unlike businesses, profit is not an objective so a measure other than net income is needed. In addition, the stakeholders and the information they require are very different. Governments report information that is far more disaggregated than a commercial enterprise. Sources of Revenue: Governments derive many of their resources from taxes. Individuals and businesses pay taxes because they are legally bound. Since there is no “product or service” being conveyed at the time of payment, it is difficult determine when to recognize revenue. Potential for Longevity: Governments rarely go out of business, so they have an accounting focus with a long-term view of operations and the sustainability of services and the ability of meet future demand. Relationship with Stakeholders: Governments have an obligation to demonstrate accountability for public funds. Fund accounting is used by governments to provide assurance that resources are used according to legal or donor restrictions. Role of the Budget: Budgets are expressions of public policy and often carry the authority of law. Public officials must stay within their budgets. Required budget vs. actual comparisons indicate the degree of compliance in this area.

1. Identify the three basic fund categories, the funds that make up each of them, and the category’s basis of accounting.

**Answer:**

1. Governmental – Funds include permanent, debt service, capital project, special revenue, and general. The basis of accounting is modified accrual.

2. Proprietary – Funds include internal service and enterprise. The basis of accounting is accrual.

3. Fiduciary – Funds include private purpose trust, investment trust, pension trust, and agency. The basis of accounting is accrual.

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: The three fund categories are governmental, proprietary and fiduciary. Governmental funds include permanent, debt service, capital project, special revenue, and general. Governmental funds use modified accrual accounting. Proprietary funds include internal service and enterprise. Proprietary funds use accrual accounting. Fiduciary funds include private purpose trust, investment trust, pension trust, and agency. Fiduciary funds use accrual accounting.

1. Contrast the economic resources measurement focus and the current financial resources measurement focus with regard to the accounting treatment of long-term debt.

**Answer:** Under the economic resources measurement focus, long-term debt is recorded as a liability and payments for principal are treated as a reduction in the liability. Since long-term liabilities do not require current financial resources to settle, they are not recorded under the current financial resources measurement focus. Payments of principal are charged to expenditures.

Learning Objective: 4

Topic: Measurement Focus and Basis of Accounting

Feedback: An economic resource measurement focus measures both current and long-term assets and liabilities and is the measurement focus used by businesses. With respect to the current financial resources measurement, GASB standards provide that accounting systems of governmental funds are designed to measure (a) the extent to which financial resources obtained during a period are sufficient to cover claims incurred during that period against financial resources and (b) the net financial resources available for future periods. The focus is on the receipt and expenditure of resources. These resources are generally restricted to current assets and liabilities.

1. The GASB has established a hierarchy of GAAP for financial statements preparers. List one category A and one category B source.

**Answer:**

1. Category A - GASB Statements and interpretations
2. Category B - GASB Implementation Guides, GASB Technical Bulletins, and literature of the American Institute of Certified Public Accountants (AICPA) specifically cleared by the GASB

Learning Objective: 3

Topic: GAAP hierarchy

1. Feedback: Only GASB Statements and interpretations are Category A GAAP
2. What are the four objectives that should be followed with respect to federal financial reporting according to Statements of Federal Financial Accounting Concepts (SFFAC) #1 as issued by the FASAB?

**Answer:**

**Budgetary integrity**

Financial reporting should demonstrate accountability with regard to raising and expending money in accord with the budgetary process, laws and regulations.

**Operating performance**

Financial reporting should enable evaluation of service efforts, costs and accomplishments.

**Stewardship**

Financial reporting should enable assessment of the impact on the nation of government operations and investments

**Systems and controls**

Financial reporting should reveal whether financial systems and controls are adequate

Learning Objective: 3

Topic: Objectives of Financial Reporting by the Federal Government

Feedback: SFFAC 1 outlines four objectives that should be followed in federal financial reporting. 1. Budgetary integrity, indicates that financial reporting should demonstrate accountability with respect to the raising and expending of moneys. 2. Operating performance, suggests that financial reporting should enable evaluation of the service efforts, costs and accomplishments of the federal agency. 3. Stewardship, reflects the concept that financial reporting should enable an assessment of the impact on the nation of the government’s operations and investments. 4. Systems and controls, indicates that financial reporting should reveal whether financial systems and controls are adequate.

1. In its Statement of Financial Accounting Concepts #4, the FASB identifies the information needs of the users of non-business financial statements. These include providing information that is useful to present and potential resource providers in which four evaluation areas?

Answer:

* 1. Making decisions about the allocation of resources.
  2. Assessing services provided by a non-business organization and its ability to continue to provide those services.
  3. Assessing managements’ stewardship and performance.
  4. Evaluation of an organization’s resources, obligations and effects of changes in net resources.

Learning Objective: 3

Topic: Objectives of Financial Reporting by Not-for-Profit Entities

Feedback: FASB’s Statement of Financial Accounting Concepts No. 4, identifies the information needs of the users of nonbusiness financial statements. These include providing information that is useful to present and potential resource providers to make decisions about the allocation of resources to those organizations, assess the services that a nonbusiness organization provides and its ability to continue to provide those services, assess management’s stewardship and performance and evaluate an organization’s economic resources, obligations, and effects of changes in those net resources.

1. Provide the definition of the following terms as outlined by GASB Concepts Statement No. 4, Elements of Financial Statements:

Assets

Liabilities

Net position

Inflows of resources

Outflows of resources

**Answer:**

**Assets:**

Resources with present service capacity that the government presently controls.

**Liabilities:**

Present obligations to sacrifice resources that the government has little or no discretion to avoid

**Net position:**

The residual of all other elements presented in a statement of financial position

**Inflows of resources:**

Acquisitions of net assets by the government that are applicable to the reporting period

**Outflows of resources:**

Consumption of net assets by the government that are applicable to the reporting period

Learning Objective:1

Topic: Objectives of Accounting for State and Local Governments

Feedback: The GASB’s Concepts Statement No. 4 provides key definitions of items appearing in financial statements.

1. What are the fund-basis financial statements for each of the following fund categories?

Fiduciary

Proprietary

Governmental

**Answer**:

**Fiduciary:**

Statement of Fiduciary Net assets (or Net Position)

Statement of Changes in Fiduciary Net assets (or Net Position)

**Proprietary:**

Statement of Net assets (or Net Position)

Statement of Revenues, Expenses, and Changes in Net assets (or Net Position)

Statement of Cash flows

**Governmental:**

Balance sheet

Statement of Revenues, Expenditures and Changes in Fund Balances

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: Fiduciary funds prepare a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. Proprietary funds prepare a Statement of Net Position, Statement of Revenues, Expenses, and Changes in Fund Net Position and a Statement of Cash Flows. Governmental funds prepare a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances.

1. List and define the five classifications of governmental funds.

**Answer:**

1. **General Fund**

This fund accounts for most of the basic services provided by the government. It accounts for and reports all financial resources not accounted for and reported in another fund.

1. **Capital Projects Fund**

This fund accounts for and reports financial resources that are committed or assigned to expenditure for capital outlays. It accounts for the purchase or construction of major capital improvements except those purchased or constructed by a proprietary or fiduciary fund.

1. **Debt Service Fund**

This fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for principal and interest, other than interest or principal on proprietary or fiduciary activities.

1. **Special Revenue Fund**

This fund accounts for and reports the proceeds of specific revenue sources that are restricted or committed to expenditure for a specified purpose other than debt service or capital projects.

1. **Permanent Fund**

This fund accounts for and reports resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs.

Learning Objective: 4

Topic: Fund Structure for State and Local Government Accounting and Reporting

Feedback: The 5 governmental funds are: general, special revenue, capital project, debt service and permanent funds. The general fundaccounts for most of the basic services provided by the government. Special revenue funds accounts for and reports the proceeds of specific revenue sources that are restricted or committed to expenditure for a specified purpose other than debt service or capital projects. Capital projects fund accounts for and reports financial resources that are committed or assigned to expenditure for capital outlays. It accounts for the purchase or construction of major capital improvements except those purchased or constructed by a proprietary or fiduciary fund. Debt service funds accounts for a reports financial resources that are restricted, committed or assigned to expenditure for principal and interest, other than interest or principal on proprietary or fiduciary activities. Permanent funds accounts for and reports resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs.

1. What is the definition of governmental organizations agreed upon by the FASB and GASB?

**Answer:**

Public corporations and bodies corporate and politic are governmental organizations.

Other organizations are governmental organizations if they have one or more of the following characteristics:

* 1. Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization’s governing body by officials of one or more state or local governments;
  2. The potential for unilateral dissolution by a government with the net resources reverting to a government; or
  3. The power to enact and enforce a tax levy.

In addition, organizations are presumed to be governmental if they have the ability to issue directly debt that pays interest exempt from federal taxation.

Learning Objective: 3

Topic: Definition of Government

Feedback: Public corporations and bodies corporate and politic are governmental organizations. Other organizations are governmental organizations if they have one or more of the following characteristics: Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization’s governing body by officials of one or more state or local governments, the potential for unilateral dissolution by a government with the net resources reverting to a government or the power to enact and enforce a tax levy. In addition, organizations are presumed to be governmental if they have the ability to issue directly debt that pays interest exempt from federal taxation.