

Certified Municipal Finance Officer (CMFO) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. Which statement requires the current year recognition of debt issuance costs?**
 - A. GASB Statement No. 62
 - B. GASB Statement No. 68
 - C. GASB Statement No. 65
 - D. GASB Statement No. 63
- 2. What is the Local Government Investment Pool used for?**
 - A. To guarantee loans to local businesses
 - B. The rate used if no investments are available
 - C. To provide cash reserves for emergencies
 - D. To finance public school construction projects
- 3. What restriction is placed on candidates regarding criminal history?**
 - A. Should not have any misdemeanor convictions
 - B. No felony or theft-related crime convictions allowed
 - C. Must disclose any criminal record
 - D. Must provide references for criminal behavior
- 4. Which of the following is an education requirement for CMFO candidates?**
 - A. Candidates must have a college degree
 - B. Candidates must be high school graduates
 - C. Candidates must complete a finance certification course
 - D. Candidates must have international education
- 5. What is a broker dealer's primary function?**
 - A. To underwrite government bonds
 - B. To set interest rates for securities
 - C. To buy and sell securities on behalf of clients
 - D. To advise issuers on bond structures
- 6. What is typically prepared before submitting bids?**
 - A. Preliminary budget review
 - B. Detailed project proposal
 - C. Bid Specifications
 - D. Bidding timeline analysis

- 7. What do DWSRF Loans provide funding for?**
- A. Education projects
 - B. Transportation infrastructure
 - C. Drinking water projects in Tennessee
 - D. Cultural initiatives
- 8. Which of the following is a potential use of Tourism Development Authority bonds?**
- A. Funding educational institutions
 - B. Building public transportation systems
 - C. Financing tourism-related infrastructure
 - D. Subsidizing operational costs for municipalities
- 9. What is involved in accounting for capital projects?**
- A. Financial actions related to marketing
 - B. Tax reporting for individual income
 - C. Financial reporting for capital expenditures
 - D. Inventory management
- 10. Why are Citizens' Attitudes important in municipal finance?**
- A. They affect local government staffing policies
 - B. They represent public opinion on borrowing and debt financing
 - C. They dictate the schedule of public meetings
 - D. They influence the pricing of municipally owned goods

Answers

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1. C
2. B
3. B
4. B
5. C
6. C
7. C
8. C
9. C
10. B

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Explanations

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1. Which statement requires the current year recognition of debt issuance costs?

- A. GASB Statement No. 62
- B. GASB Statement No. 68
- C. GASB Statement No. 65**
- D. GASB Statement No. 63

The requirement for current year recognition of debt issuance costs is outlined in GASB Statement No. 65. This statement specifically addresses the reporting of deferred outflows of resources and deferred inflows of resources, establishing that certain costs associated with the issuance of debt should be expensed in the period incurred rather than being deferred. By recognizing these costs in the current year's financial statements, municipalities align their reporting practices with the principles of transparency and fiscal accountability, ensuring that the financial impact of these costs is reflected in the period in which they occur. In contrast, the other statements mentioned do not mandate the immediate expensing of debt issuance costs. GASB Statement No. 62 deals with overall financial reporting principles, No. 68 pertains to accounting and financial reporting for pensions, and No. 63 focuses on financial reporting for deferred outflows and inflows of resources that affect net position. None of these specifically address the accounting treatment of debt issuance costs as GASB Statement No. 65 does.

2. What is the Local Government Investment Pool used for?

- A. To guarantee loans to local businesses
- B. The rate used if no investments are available**
- C. To provide cash reserves for emergencies
- D. To finance public school construction projects

The Local Government Investment Pool (LGIP) serves the purpose of allowing local governments to invest their idle funds in a collective pool that offers a higher return than they would typically receive from traditional bank accounts or short-term investments. The rate provided by the LGIP is typically used as a benchmark when no other investment opportunities are readily available for local governments. This means that if a local government has excess cash and does not have immediate investment opportunities, the rate from the LGIP acts as a fallback or a standard for evaluating the potential returns on their investments. This function is critical because it provides local governments with an accessible platform to invest while ensuring liquidity and safety, as the funds are often managed in a way that prioritizes security and accessibility. The returns can help with budgeting and cash flow management, which is essential for effective municipal finance. The other potential uses, like guaranteeing loans to businesses, providing emergency cash reserves, or financing school construction, do not accurately capture the primary function of the LGIP, which is focused on collective investment and providing an interest rate benchmark for local governments' idle funds.

3. What restriction is placed on candidates regarding criminal history?

- A. Should not have any misdemeanor convictions
- B. No felony or theft-related crime convictions allowed**
- C. Must disclose any criminal record
- D. Must provide references for criminal behavior

The chosen answer highlights a key restriction placed on candidates concerning their criminal history, emphasizing that individuals with felony or theft-related crime convictions are not allowed to participate in the process. This is particularly relevant in the context of municipal finance positions, which often require a significant amount of trust and integrity, given the responsibilities associated with managing public funds and finances. The prohibition against felony and theft-related crimes is aimed at ensuring that those appointed to these roles have a clean and trustworthy background, aligning with the ethical standards expected in public service. Positions in municipal finance often involve handling sensitive financial information and taxpayer funds, thus necessitating a high level of accountability and ethical behavior. In contrast, other options might not accurately capture the comprehensive nature of the restrictions. For instance, stating that there should not be any misdemeanor convictions may not fully encompass the spectrum of disqualifying criminal history that is pertinent in this context. Similarly, while disclosure of any criminal record could be a part of the application process, simply disclosing without a specific condition (like felony or theft-related convictions) does not reflect the exact restrictions imposed. Lastly, requiring references for criminal behavior is not a standard practice, as the focus is typically on the nature of convictions rather than references.

4. Which of the following is an education requirement for CMFO candidates?

- A. Candidates must have a college degree
- B. Candidates must be high school graduates**
- C. Candidates must complete a finance certification course
- D. Candidates must have international education

The education requirement for CMFO candidates that is most commonly accepted is that candidates must be high school graduates. This requirement ensures that all candidates have attained a basic level of education, which is essential for understanding the fundamental principles of municipal finance. Being a high school graduate provides candidates with the necessary analytical and critical thinking skills that are vital when working with financial data, budgeting processes, and accounting practices that are pertinent in public finance. While additional education such as a college degree or completing finance certification courses can be beneficial and may enhance a candidate's knowledge and marketability, they are not universally mandated as minimum requirements across all jurisdictions. The focus on high school graduation as a minimum standard allows for wider accessibility to the field, enabling individuals from various backgrounds to pursue a career as a CMFO. Overall, meeting the high school graduation criterion is crucial for establishing a foundational level of competency in the field of municipal finance.

5. What is a broker dealer's primary function?

- A. To underwrite government bonds
- B. To set interest rates for securities
- C. To buy and sell securities on behalf of clients**
- D. To advise issuers on bond structures

A broker-dealer's primary function is to buy and sell securities on behalf of clients. This involves facilitating transactions in the capital markets, acting as intermediaries between buyers and sellers of securities. Broker-dealers provide essential services for individual and institutional investors, executing orders for stocks, bonds, mutual funds, and other investment products. In this role, they can either act as a broker, which means they execute trades for clients in exchange for a commission, or as a dealer, which involves buying and selling securities for their own account. This dual role allows broker-dealers to provide liquidity to the market, improving the efficiency of trading and investment activities. While underwriting government bonds and advising on bond structures are important functions within the financial system, these are not the primary functions of a broker-dealer. Underwriting typically refers to the process of raising capital for issuers, while advising on bond structures is more aligned with investment banking. Setting interest rates for securities is determined by the market forces and economic factors, not by a broker-dealer's primary function. Therefore, facilitating trades on behalf of clients is central to the broker-dealer's operations and responsibility.

6. What is typically prepared before submitting bids?

- A. Preliminary budget review
- B. Detailed project proposal
- C. Bid Specifications**
- D. Bidding timeline analysis

The preparation of bid specifications is a critical step in the bidding process. Bid specifications provide clear, detailed descriptions of the project's requirements, including the scope of work, materials needed, timelines, and performance standards. These specifications ensure that all bidders have a uniform understanding of what is required, which promotes competitiveness and fairness during the bidding process. When bid specifications are well-defined, they help prevent misunderstandings or misinterpretations that could lead to disputes later on. Additionally, having clear specifications aids in evaluating and comparing bids on a level playing field since all bidders will base their proposals on the same set of criteria. While other elements like a preliminary budget review or a detailed project proposal may play a role in preparing for a project, they generally occur after or alongside the preparation of bid specifications rather than before bids are submitted. The bidding timeline analysis can help manage the overall schedule, but it does not provide the necessary detailed guidance for bidders to prepare their proposals effectively. Therefore, the preparation of bid specifications is the fundamental step that must be completed to ensure a successful bidding process.

7. What do DWSRF Loans provide funding for?

- A. Education projects
- B. Transportation infrastructure
- C. Drinking water projects in Tennessee**
- D. Cultural initiatives

DWSRF stands for Drinking Water State Revolving Fund, which is a program designed to help communities across the United States improve their drinking water infrastructure. The funding from DWSRF loans is specifically allocated for projects that aim to ensure safe drinking water and enhance the overall quality of drinking water systems. In the context of Tennessee, these loans play a crucial role in addressing the needs of public water systems, including constructing or upgrading facilities that treat and distribute drinking water, thus ensuring compliance with safe drinking water standards. They are pivotal in allowing municipalities and local governments to finance necessary improvements and expansions to their water systems, ensuring access to reliable and clean drinking water for residents. The other options focus on different sectors, such as education, transportation, and cultural initiatives, which do not align with the specific purpose of DWSRF loans, emphasizing the targeted nature of this funding towards drinking water projects.

8. Which of the following is a potential use of Tourism Development Authority bonds?

- A. Funding educational institutions
- B. Building public transportation systems
- C. Financing tourism-related infrastructure**
- D. Subsidizing operational costs for municipalities

Tourism Development Authority bonds are specifically designed to finance projects that enhance tourism and generate economic benefits for a region. This makes tourism-related infrastructure, such as hotels, convention centers, theme parks, and recreational facilities, a primary use of these bonds. Debt issued through these bonds often aims to attract visitors and encourage spending in the local economy, which supports job creation and generates tax revenue. When municipalities utilize these bonds, the funds are typically allocated to projects that directly promote tourism, thereby creating an environment conducive for travel and leisure. This focus aligns well with the objectives of tourism development, making it the most appropriate choice among the options provided. Other options, like funding educational institutions or building public transportation systems, while beneficial for a community, do not directly tie into the specific goals of a Tourism Development Authority, which is focused on stimulating tourism and related economic growth. Additionally, subsidizing operational costs for municipalities does not align with the capital projects typically funded through tourism bonds.

9. What is involved in accounting for capital projects?

- A. Financial actions related to marketing
- B. Tax reporting for individual income
- C. Financial reporting for capital expenditures**
- D. Inventory management

In accounting for capital projects, financial reporting for capital expenditures is a critical component because it involves tracking and documenting the costs associated with acquiring, constructing, and improving long-term assets, such as infrastructure, buildings, and equipment. Capital expenditures are significant investments that are expected to provide benefits over a long period. Accurate reporting helps municipal finance officers ensure that these expenditures are correctly classified in financial statements, allowing stakeholders to assess the financial health and effectiveness of capital projects. This process also includes monitoring budgets, ensuring compliance with governmental accounting standards, and providing transparency to the public regarding how taxpayer funds are utilized for infrastructure projects. Moreover, this financial reporting is essential for effective project management and decision-making, providing insights into costs incurred and helping to justify future funding requests or adjustments to project scopes. Understanding this aspect of capital project accounting enables officials to maintain fiscal responsibility and enhance community trust in the management of public resources.

10. Why are Citizens' Attitudes important in municipal finance?

- A. They affect local government staffing policies
- B. They represent public opinion on borrowing and debt financing**
- C. They dictate the schedule of public meetings
- D. They influence the pricing of municipally owned goods

Citizens' attitudes play a crucial role in municipal finance primarily because they reflect public opinion on borrowing and debt financing. When citizens have a positive view of their local government's financial practices, including borrowing and debt management, they are more likely to support initiatives that require investment through these methods. This support can be vital when a municipality seeks to issue bonds or take on debt to fund projects such as infrastructure improvements or public services. Public opinion can shape how local governments approach financial decisions. If citizens are wary of debt and borrowing, it can lead to resistance against proposals that rely on these funding methods, potentially delaying or halting necessary projects. Understanding citizens' attitudes allows municipal finance officers to communicate more effectively with the public, ensuring transparency and building trust, which is essential for securing the approval needed for financial initiatives. In contrast, while staffing policies, schedules of public meetings, and pricing of municipally owned goods are also important in the overall operation of local governments, they do not directly impact the fundamental financial strategies related to borrowing and investment. Thus, the influence of citizens' attitudes on borrowing and debt financing stands out as a key consideration in the context of municipal finance.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://certmunicipalfinanceofficer.examzify.com>

We wish you the very best on your exam journey. You've got this!

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