

UNITED STATES DEPARTMENT OF AGRICULTURE**ASSISTANCE LISTING 10.760 WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES****I. PROGRAM OBJECTIVES**

The Water and Waste Program is designed to assist rural communities in obtaining safe drinking water and adequate waste disposal facilities, which are prerequisites for economic growth. In recent years, water and waste systems have been subject to increasingly stringent regulation under the Safe Drinking Water Act and Clean Water Act. This program is instrumental in providing the financing to build or upgrade rural water and waste disposal facilities.

II. PROGRAM PROCEDURES**A. Overview**

Under this program, the United States Department of Agriculture's (USDA) Rural Utilities Service (RUS) awards direct loans, loan guarantees, and project grants for new and improved water and waste disposal systems serving rural areas where financing is not available from commercial sources at reasonable rates and terms. The Water and Waste Program is authorized to provide loan and grant assistance to eligible applicants for water and waste disposal facilities in rural areas and incorporated areas up to 10,000 people. Eligible applicants include (1) a public body, such as a municipality, district, county, authority, or other political subdivision of a state, territory, or commonwealth; (2) an organization operated on a not-for-profit basis, such as a cooperative, association, or private corporation; or (3) Indian tribes on state and federal reservations and other federally recognized tribes (7 CFR 1780, section 1780.7(a)(3)).

B. Direct Loans for Water and Waste Disposal Systems

To establish its eligibility for a loan, an applicant must demonstrate to RUS that it cannot finance the proposed project from its own resources or obtain sufficient credit to do so at reasonable terms or rates. In addition, the applicant must have the legal authority to construct, operate, and maintain the proposed facility, and to give security for and repay the proposed loan (7 CFR 1780, section 1780.7). A loan is repayable based on the useful life of the facility, state statute, or 40 years from the date of the note, whichever is sooner. Interest is charged at a poverty rate, intermediate rate, or market rate depending on the circumstances (7 CFR 1780, section 1780.13).

C. Project Grants for Water and Waste Disposal Systems

RUS makes grants in conjunction with direct loans for water and waste disposal projects serving the most financially needy communities in order to reduce user costs to a reasonable level. Maximum grant amounts are based on a graduated scale that provides higher amounts for projects in communities that have lower income levels; however, a

grant amount may never exceed 75 percent of RUS eligible project development costs. To establish grant eligibility, an applicant must demonstrate to RUS that it serves a rural area whose median household income (MHI) falls below the statewide nonmetropolitan median household income (7 CFR 1780, section 1780.10). Grant monies are not necessarily awarded at the grant caps. The grant, if any, awarded represents the amount of subsidy needed to maintain reasonable rates for its users. As each system has unique costs associated with the delivery of safe and potable water, MHI is not the sole driver of grant contributions. Rather, the award amount is dependent upon financial review and determined on a case-by-case basis.

D. Guaranteed Loans for Water and Waste Disposal Systems

RUS provides guaranteed loans and will guarantee up to 90 percent of eligible loan loss. The interest rate and term for guaranteed loans are negotiated between the recipient and the lender (7 CFR 1779, sections 1779.30 and 1779.33).

Source of Governing Requirements

The program is authorized by Section 306 of the Consolidated Farm and Rural Development Act (7 USC 1926). Implementing regulations are at 7 CFR parts 1779 and 1780.

Availability of Other Program Information

RUS maintains a home page that provides general information about this program at <http://www.rd.usda.gov/programs-services/water-waste-disposal-loan-grant-program>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	Y	Y	N	Y	N	Y	N	N

A. Activities Allowed or Unallowed

1. Loan and grant funds may be expended on eligible project costs, as approved by RUS. These expenditures include items such as land acquisition, water rights, legal fees, engineering fees, construction costs, and the purchase of equipment (7 CFR 1780, section 1780.9).
2. Loan and grant funds may not be used for the following (7 CFR 1780, section 1780.10):
 - a. Facilities that are not modest in size, design, and cost.
 - b. Loan or grant finder’s fees.
 - c. The construction of any new combined storm and sanitary sewer facilities.
 - d. Any portion of the cost of a facility which does not serve a rural area.
 - e. That portion of project costs normally provided by a business or industrial user, such as wastewater pretreatment, etc.
 - f. Rental for the use of equipment or machinery owned by the applicant.
 - g. For other purposes not directly related to operating and maintaining the facility being installed or improved.
 - h. The payment of a judgement which would disqualify an applicant for a loan under 1780.7.

B. Allowable Costs/Cost Principles

The auditor should test costs for allowable/unallowable activities when agency funds are used or when interim financing is used during construction.

G. Matching, Level of Effort, Earmarking**1. Matching**

Under the direct loan and grant programs, borrowers may be required to provide funds from their own or other sources as required in the grant agreement and the letter of conditions issued, or security instruments, such as the grant agreement or loan documentation by RUS (7 CFR sections 1780.44(d) and (f)).

2. Level of Effort

Not Applicable

3. Earmarking

Not Applicable

L. Reporting Requirements**1. Financial Reporting**

- a. *SF-270, Request for Advance or Reimbursement* – Not Applicable
- b. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- c. *SF-425, Federal Financial Report* – Not Applicable
- d. *Form RD 442-2, Statement of Budget, Income and Equity (OMB No. 0575-0015)* – This report covers financial operations relating to the borrower's water or waste disposal project. A borrower may submit this financial data on other forms, provided the forms are in a similar format and signed and dated by the organization's official to certify the correctness of the information. Also, an annual audit may be submitted in lieu of this form (7 CFR 1780, section 1780.47).

Key Line Items – Page 1 only. Supplemental data is not tested by the auditor.

- e. *Form RD 442-3, Balance Sheet (OMB No. 0575-0015)* – This report presents the financial status of the borrower's water or waste disposal project. A borrower may submit this financial data on other forms, provided the forms are in a similar format and signed and dated by the organization's official to certify the correctness of the information. Also, an annual audit may be submitted in lieu of this form (7 CFR 1780, section 1780.47).

Key Line Items – All the sections, line items, and data elements in the report contain critical information.

2. Performance Reporting

Not Applicable

3. Special Reporting

Not Applicable

4. Special Reporting for Federal Funding Accountability and Transparency Act

See Part 3.L for audit guidance.

IV. OTHER INFORMATION

Interim Financing

After RUS has made a commitment on a loan, the borrower may be required to obtain interim financing from commercial sources (e.g., a bank loan) for the construction period (7 CFR 1780, section 1780.39(d)). Interim financing is required for all loans over \$500,000, except in documented instances where financing cannot be obtained at reasonable rates. Expenditures from these commercial sources that will be repaid from the proceeds of the RUS loan should be considered federal awards expended, included in determining Type A programs, and reported in the Schedule of Expenditures of Federal Awards.

Status of Outstanding Loan Balance After Project Completion

In years after the program funds are expended and construction is completed, and the only ongoing financial activity of the program is the payment of principal and interest on outstanding loan balances, the prior loan balances are not considered to have continuing compliance requirements under 2 CFR 200, section 200.502(d). Prior loans that do not have continuing compliance requirements other than to repay the loans are not considered federal awards expended and, therefore, are not required to be audited under 2 CFR Part 200, Subpart F.

However, this does not relieve the borrower of the requirement to file financial reports on these loans (which are not required to be audited) or otherwise comply with program requirements (e.g., maintaining insurance, depositing funds in federally insured banks, obtaining prior approval for sales of plant).