
State Revolving Fund Equivalency Handbook

June 2024



SRF Equivalency Handbook

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The purpose of this handbook is to provide information to EPA and state SRF managers on the use of equivalency in the SRF programs. It is not guidance and does not supersede any law, regulation, or grant term and condition.

Introduction

This handbook provides EPA and state SRF managers with a comprehensive overview of the use of “equivalency” in the Clean Water and Drinking Water SRF programs.

The SRFs are different from other federal funding programs because they are managed and co-funded by states. Though they receive seed funding via federal capitalization grants from EPA, the SRFs have non-federal sources of money in them (e.g., state match, recycled principal repayments, interest earnings, and bond proceeds). Once funding from SRF federal capitalization grants is loaned by the SRFs to recipients and then repaid by those recipients to the SRFs, those funds lose their federal character (or their “federal color”). Because only a small amount of total funds in the SRF are federal, the requirements that apply to “federal awards” or “federal funds” are applied only to a *subset* of total projects funded by the SRFs. This is the underlying basis for the equivalency concept.

What is “Equivalency?”

Equivalency is a unique feature of the SRF programs wherein certain program requirements apply only to a *subset* of SRF assistance agreements and activities. Those requirements are listed in Appendix 2. The “**equivalency requirements**” must be met by assistance agreements and activities whose total dollar amount equals the amount of the federal SRF capitalization grant¹ in question.

For each capitalization grant, state SRF programs select assistance agreement(s) from the infrastructure fund that will comply with equivalency requirements. Those assistance agreements are often called the “**equivalency projects**,” or the “**equivalency group**.” The remaining SRF assistance agreements (i.e., those outside of the equivalency projects/group) are not subject to and thus are not required to comply with the equivalency requirements.

DEFINITION OF EQUIVALENCY REQUIREMENTS:
SRF program requirements that apply to “federal awards” or “federal funds.” These requirements must be met by SRF assistance agreements and activities whose dollar amount equals the amount of the federal SRF capitalization grant(s)¹ *in addition to* the requirements that apply to all SRF projects.

States may choose to apply some or all the equivalency requirements to projects beyond the equivalency group.² This choice is within a state’s discretion. However, such application of the equivalency requirements is a policy choice by state SRF managers. EPA and other federal agencies do not have authority to enforce those requirements for projects and activities beyond those selected as equivalency projects.

¹ Selected assistance agreements will essentially never equal the exact amount of the capitalization grant. The selected assistance agreements typically will be slightly greater than the capitalization grant amount.

² The exception is the FFATA subaward reporting requirements, for which only equivalency assistance agreements and DWSRF set-asides can be reported. See *Guidance on FFATA Reporting Through CWSRF and DWSRF Data Systems* memorandum, March 23, 2011, and *Clarification of FFATA Reporting Requirements in the SRF Programs* memorandum, November 2023.

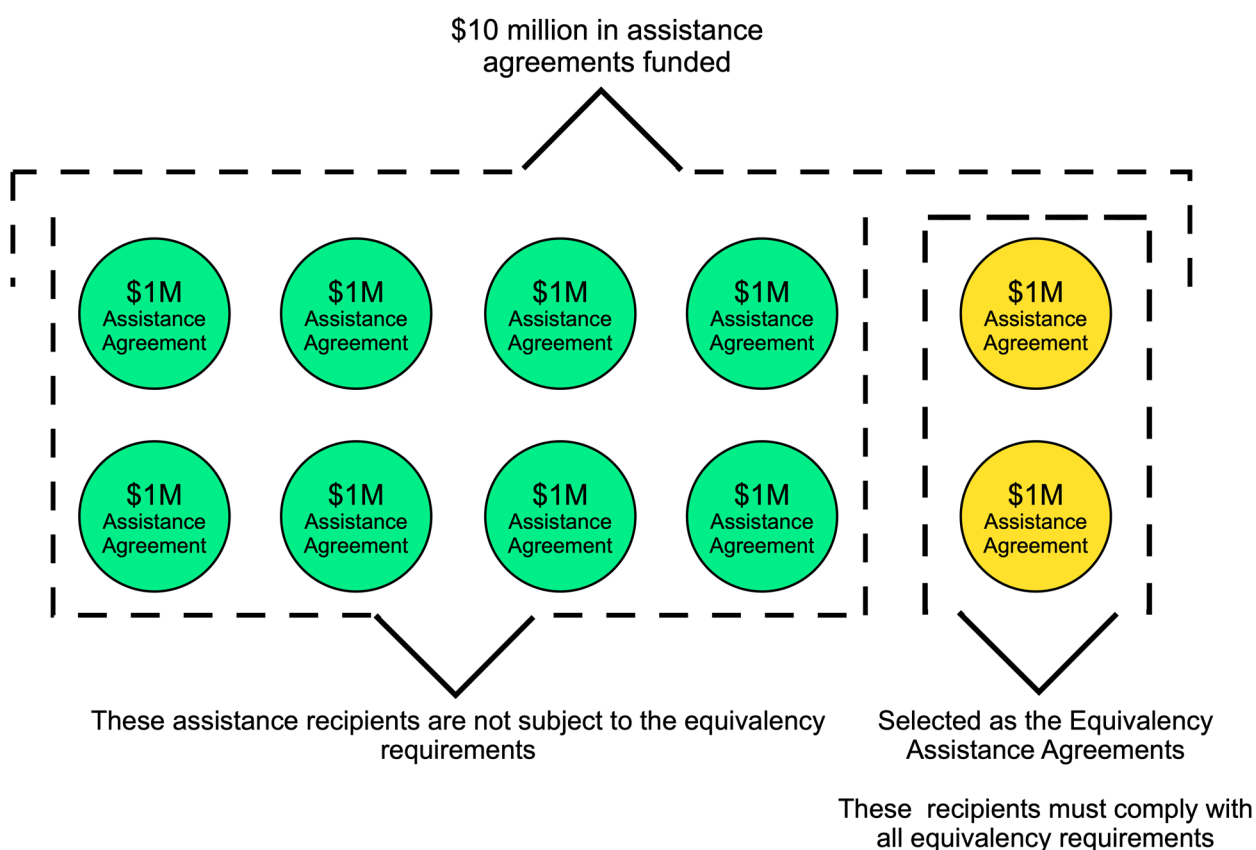
Visualizing Equivalency

CWSRF

In the scenario in Figure 1 below, a state receives a \$2 million CWSRF capitalization grant, provides the required 20% match of \$400,000, and uses \$7.6 million in loan repayments to make \$10 million available for loans. Using the concept of equivalency, a state applies the federal equivalency requirements to \$2 million worth of that \$10 million in loans, because that is equal to the amount of the capitalization grant.

Figure 1: Basic CWSRF Equivalency Graphic

State's Annual CWSRF Capitalization Grant: \$2 million
State's Annual Total Assistance Provided: \$10 million

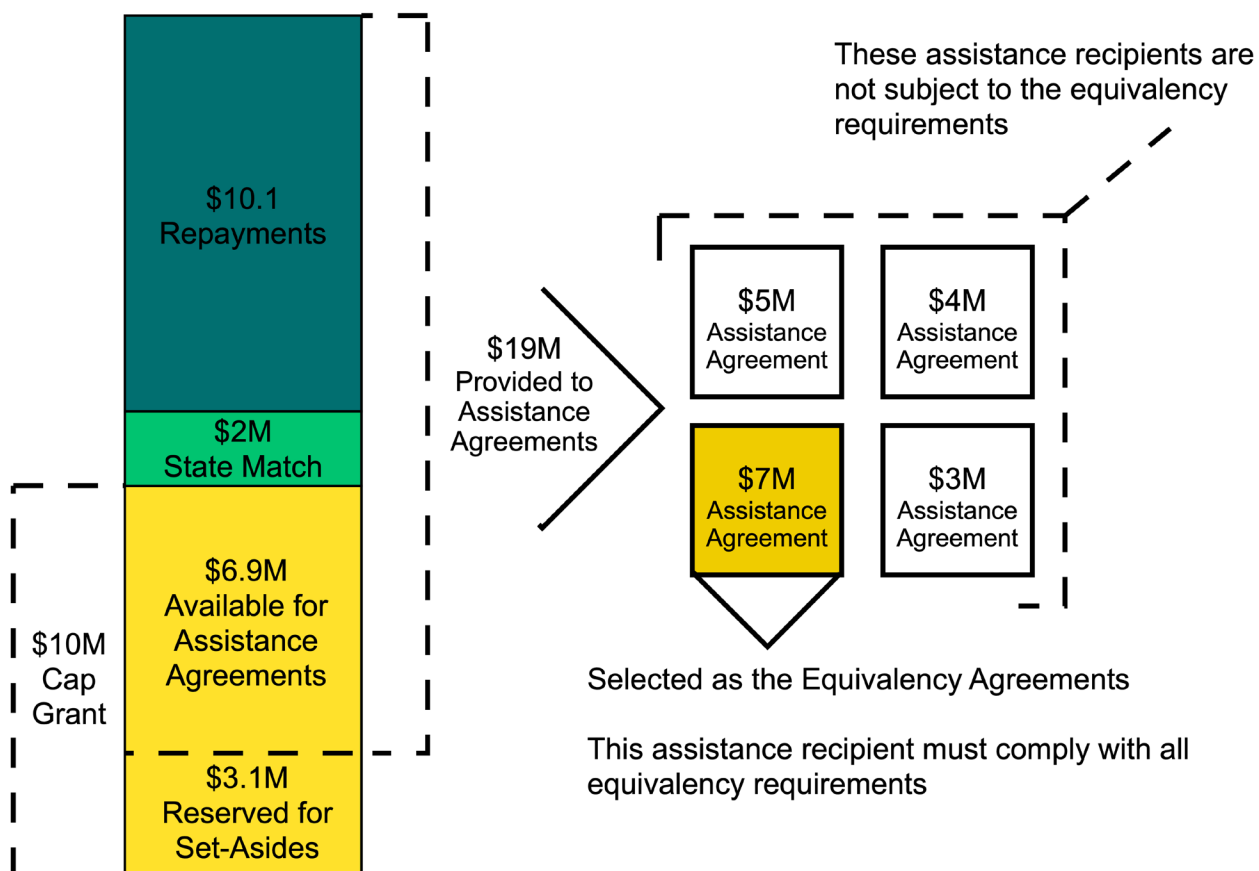


DWSRF

The concept works similarly in the DWSRF program, but with a significant caveat related to use of set-asides. Because the set-asides are all federal funds and are not fungible with infrastructure funds, they count towards meeting each capitalization grant's equivalency requirement. In practice, when a state uses some of its capitalization grant for set-asides, the remaining amount used for infrastructure projects that must meet equivalency requirements is reduced. In the scenario in Figure 2 below, a state receives a \$10 million DWSRF capitalization grant, provides the required 20% match of \$2 million, reserves 31% of the capitalization grant for DWSRF set-asides (\$3.1 million), and uses the balance of the capitalization grant (\$6.9 million) plus \$10.1 million in loan repayments and the state match to

make \$19 million available for loans. In this scenario, the equivalency requirements apply to loans equaling the \$6.9 million remaining portion of the capitalization grant that is not used for set-asides.

Figure 2: Basic DWSRF Equivalency Graphic



How Equivalency Works

Choosing Equivalency Projects

In most cases, SRF programs have latitude to decide which assistance agreements will be selected for the equivalency group. There are a few important rules:

1. States must use the same group of assistance agreements to meet all equivalency requirements. For example, states cannot select some projects to meet the signage requirements and other projects to meet the Build America, Buy America requirements.
2. Each single assistance agreement must be designated as either equivalency or non-equivalency.^{3,4}

³ If a project can be separated into separate phases by a distinct purpose, time, or place, a state may make separate assistance agreements for different phases of the project (e.g., one assistance agreement for planning and design and another for construction). One of those assistance agreements may be designated as equivalency and the other(s) may or may not.

⁴ If a state makes a single assistance agreement that includes SRF and non-SRF funds (i.e., funds from a different state program), then only the SRF funds need to meet the equivalency requirements.

3. In the uncommon situation where additional subsidy is provided in the form of a grant (as opposed to loans with principal forgiveness or other additional subsidy options), such a grant is considered a *subaward* under 2 CFR 1500.3(b) and must comply with certain procurement and monitoring requirements.⁵ Since these grants must follow federal procurement and monitoring requirements, and states are required to comply with all sub-award policies and regulations, states are encouraged to include them in the equivalency group as well.
4. Because all DWSRF set-asides are considered federal dollars, all DWSRF set-aside funded loans from the SDWA section 1452(k) source water protection authority must be included in the equivalency group unless this loan is made from repayments from previous 1452(k) loans.
5. All assistance agreements in the equivalency group must be reported in ffrs.gov for FFATA, unless they are exempt from FFATA reporting or together exceed the amount of the capitalization grant.⁶

Here are some considerations for state managers as they choose equivalency projects:

1. It may make sense to select projects for equivalency that must already comply with AIS (i.e., CWSRF treatment works projects and DWSRF construction projects), as the AIS requirements are equivalent to the BABA “iron and steel” requirements.
2. Large, higher-capacity borrowers typically have the staff, resources, and experience to meet the federal requirements more easily.
3. States might select one large assistance agreement to meet the equivalency requirements.
4. If a project is being co-funded between the SRF and WIFIA, it may be advantageous to choose that project as an equivalency project because it already must meet most SRF equivalency requirements to be eligible for WIFIA funding. If an equivalency loan is used as co-funding for a WIFIA loan, only the amount of the SRF equivalency loan up to the capitalization grant amount are federal dollars for the purposes determining the percent of the project costs receiving federal assistance.
5. States should strive to notify assistance recipients early in the application process of all requirements that apply to the project. This will help ensure that those requirements can be implemented during project planning and included in loan agreements and contract documents. This includes equivalency requirements for equivalency projects.
6. States can consider offering an interest rate break to equivalency projects.

⁵ *Understanding State Revolving Fund Additional Subsidy as a Grant* memorandum, July 13, 2022

⁶ See *Clarification of FFATA Reporting Requirements in the SRF Programs* memorandum, November 2023.

Identifying Equivalency Projects in the Intended Use Plan (IUP)

The IUP is the plan for the state's SRF fiscal year and may be associated with one or more capitalization grant applications. The IUP must identify the assistance agreements that will complete the equivalency requirements for each capitalization grant, if known at the time the IUP is finalized. The equivalency list should include projects that are expected to sign assistance agreements during the upcoming year that is covered by the IUP. This accounting should be clear and done on a grant-by-grant basis.

EQUIVALENCY REQUIREMENTS CANNOT BE BANKED:

Applying the equivalency requirements to assistance agreements in excess of the amount of the capitalization grant one year does not allow a state to apply the requirements to fewer assistance agreements in future years.

Example 1: A CWSRF IUP is covering one federal capitalization grant application (e.g., FY 2023 grant of \$10 million). The IUP identifies projects (Projects A through M) in an amount enough to utilize all sources of funds available (e.g., \$100 million to cover federal, state match, interest earnings, and recycled funds). In this IUP the state program should identify those specific projects that it intends to fund in an amount of \$10 million (e.g., Project C for \$4.2 million and Project E for \$6 million) that will comply with the equivalency requirements.

Example 2: A DWSRF IUP is covering multiple federal capitalization grant applications (e.g., 2022 base grant of \$12 million, 2022 BIL General Supplemental grant of \$20 million, and 2023 base grant of \$9 million). The state is choosing not to take any DWSRF set-asides. The IUP identifies projects (Projects A through X) in an amount enough to utilize all sources of funds available (e.g., \$175m to cover federal capitalization grants, state match, interest earnings, and recycled funds). In this IUP, the state program should identify those specific projects that it intends to fund in an amount of each grant (e.g., Project A for \$12.3 million to cover the 2022 base grant; Project C for \$12.1 million and Project L for \$8 million to cover the 2022 BIL General Supplemental grant; Project P for \$1.1 million and Project Q for \$8.1 million to cover the 2023 base grant) that will comply with the equivalency requirements.

Assistance agreements intended to meet the equivalency requirements may change throughout the year if one or more equivalency projects fail to proceed to an assistance agreement or are over/underbudget in bidding. The final list of equivalency assistance agreements must be included in the state's Annual/Biennial Report.

Disbursements to Equivalency Projects

Except where SRF appropriations are restricted to a particular purpose,⁷ disbursements to equivalency projects may come from **any** source of funds in SRF accounts. Disbursements to equivalency projects do **not** need to come from:

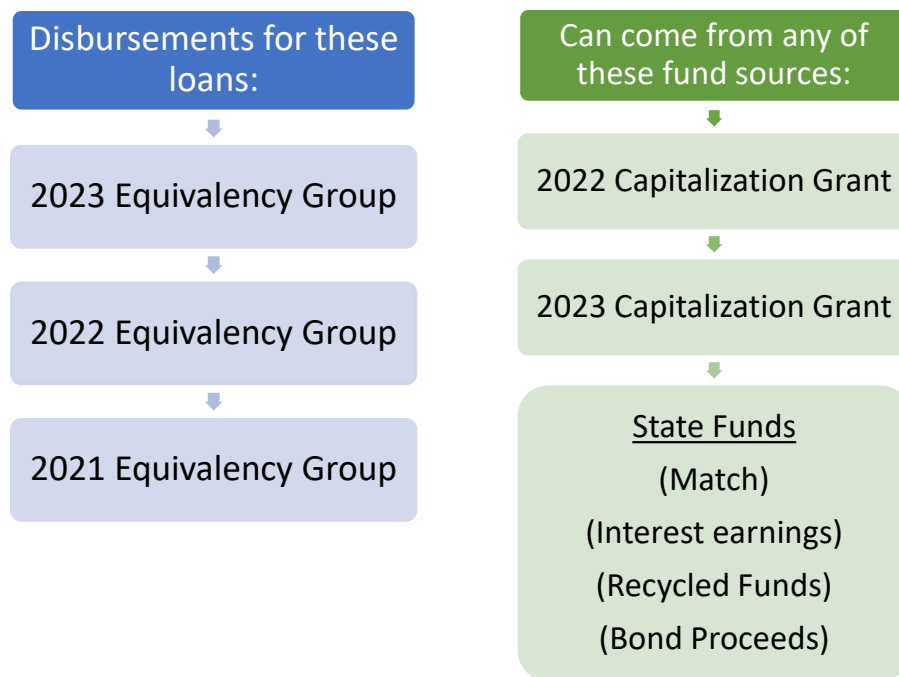
- a federal capitalization grant, nor
- the federal capitalization grant associated with the year that the equivalency projects were signed.

⁷ See exceptions in the Specific Appropriations Considerations section of this handbook.

SRF programs are strongly encouraged to use the FIFO (First-In, First-Out) accounting principle to manage draws. If an SRF program decides to draw capitalization grant funds for a disbursement to an equivalency project, the funds should be drawn from the oldest open capitalization grant. EPA also encourages SRF programs to expend all capitalization grants as quickly as possible. Therefore, capitalization grant expenditures should not be delayed by “saving” these funds for disbursements to equivalency assistance agreements.

Figure 3 shows an example from a state that has two open capitalization grants. Note that some of the equivalency projects from the 2021 group are still disbursing, and this is acceptable. The state should prioritize the disbursements to assistance agreements out of the oldest capitalization grants and state funds, noting that the SRF program can choose **any of the available fund sources for the disbursements to equivalency assistance agreements**, except where the SRF appropriation is restricted to a particular purpose.

Figure 3: Disbursements May be Pulled from Any Fund Source



Tracking Equivalency Assistance Agreements

SRF programs may want to identify equivalency project(s) whose amount slightly exceeds the amount of the capitalization grant. A final SRF assistance agreement amount may be higher or lower than the initial application. For instance, if bids come in higher than expected or the project scope is revised, the final assistance agreement amount may change. SRF programs should track all equivalency projects over time to determine whether the total final assistance agreement amounts in each equivalency group is equal to (or more than) the associated capitalization grant. If the final assistance agreement amounts are lower than the capitalization grant amount, the state should identify additional assistance agreements to make up the shortfall. It is acceptable for new assistance agreements to be signed in a later year than the original equivalency group to make up a shortfall; the SRF program should just note

in the IUP and Annual/Biennial Report which assistance agreement(s) have been selected to compensate for a shortfall in prior year equivalency projects.

Reporting and Documentation

The Intended Use Plan must:

- Identify the projects that will meet the equivalency requirements if they are known at the time. In some cases, the state may not know all of the specific equivalency projects at the time the IUP is issued.
- Identify additional equivalency projects if the SRF program needs to make up a prior year's shortfall.

The Annual/Biennial Report must:

- Identify the assistance agreements that were selected to meet the equivalency requirements. They may include different assistance agreements from those identified on the IUP. These assistance agreements should all have signed agreements executed (or expected to be executed in the near future).
- Include a statement that additional equivalency projects will be identified the following year, if the state fell short of signing assistance agreements for equivalency projects in an amount equaling the capitalization grant(s) (in the DWSRF, after factoring in the use of the DWSRF set-asides).

As part of Regional Oversight, EPA Regions will do the following:

- When preparing for the Annual Review, Regions will select at least one equivalency assistance agreement for file review to ensure equivalency requirements were met (see current *Annual Review Guidance* for specific requirements). The assistance agreement will be selected from the list of equivalency projects in the Annual/Biennial Report.
- Confirm that the Annual/Biennial Report lists signed assistance agreements that meet all equivalency requirements in an amount at least equal to the relevant capitalization grants. In the DWSRF, it will be the amount that was reserved for financial assistance from the infrastructure fund. If the state does not have sufficient signed equivalency assistance agreements, the Region should confirm the state has a plan in place to meet the equivalency requirements.
- Verify the projects listed in the Annual/Biennial Report for signed assistance agreements that meet all equivalency requirements match what is reported in the Office of Water SRF database.

Audit Considerations

Except where SRF appropriations are restricted to a particular purpose,⁸ EPA has a longstanding policy of allowing and encouraging SRF programs to “cut the tie” between capitalization grant dollars and the assistance agreements chosen to meet capitalization grant requirements. Because funds in SRF programs come from many different sources (e.g., federal capitalization grants, state match,

⁸ See exceptions in the Specific Appropriation Considerations section of this handbook.

repayments, interest earnings, and bond proceeds) but are typically mixed in a single state account, EPA recognizes that SRF dollars are fungible; that is, the funds “lose their federal color” once they become state SRF funds, and it becomes impossible to assign specific requirements to specific dollars.

However, many state auditors may be more accustomed to programs that operate differently from the SRFs. They often expect that assistance agreements receiving disbursements from the federal capitalization grants are required to comply with federal requirements. The SRF program may wish to address equivalency procedures in the SRF Financial Audit’s section: Notes to Financial Statements and the Notes to Schedule of Expenditures of Federal Awards. The language from the OMB Compliance Supplement may be helpful, as well as the bullets in the “EPA Policy Regarding Federal Dollars and Equivalency Projects” section below.

EPA Policy Regarding Federal Dollars and Equivalency Projects

- The state’s CWSRF Annual Report and DWSRF Annual/Biennial Report is the primary document for identifying SRF “federal” assistance agreements.
- Assistance agreements receiving disbursements from a federal capitalization grant might not be equivalency projects, and therefore, might not be “federal awards.” SRF capitalization grant disbursements should *not* be used as the criteria for identifying assistance agreements subject to the Single Audit Act (SAA) requirements.
- Assistance agreements for equivalency projects should make clear in the documentation that the loan (or other type of financial assistance) is considered a federal award.
- SRF programs will report only the funds representing federal dollars (i.e., funds up to the amount of the capitalization grant) to projects from equivalency assistance agreements on the state Schedule of Expenditures of Federal Awards (SEFA). The SRF program will provide a notification of federal awards to all the equivalency projects that are identified in the Annual Report. The state SEFA should also align with the equivalency decisions and not actual federal dollars.
- Actual disbursements from capitalization grants – not disbursements to equivalency projects – should be reported on EPA Financial Status Reports (FSRs).

This approach was developed by the EPA Office of Water in coordination with the Office of Management and Budget (OMB) and is incorporated into the [OMB Compliance Supplement](#).

SEFA vs. Financial Statements

The SEFA is a supplement to the financial statements that report all federal awards (such as SRF capitalization grants) expended during the year. State auditors sometimes have questions when comparing the SEFA to the financial statements for SRF programs because the financial statements reflect draws from the capitalization grant, while the SEFA reflects disbursements to equivalency projects, as shown in Table 2.

Draws from the federal capitalization grant are reported in the Annual Financial Statements. These draws are typically reflected in the financial statements as:

- Non-Operating Revenues, Contributions (or similar) in the Statement of Revenues, Expenses and Changes in Net Position and
- Cash Flows from Noncapital Financing Activities (or similar) in the Statement of Cash Flows.

Table 2: Difference Between Financial Statements and SEFA

| Financial Statements | vs. | SEFA |
|---|------------|---|
| Recognized Federal Revenue (i.e., revenues/cash flows from EPA Grants) reflects draws from federal capitalization grants | | Federal Award Amount Expended reflects disbursements to equivalency projects |

As shown in the excerpt below, SEFA guidance indicates that federal awards should be based on activity pertaining to “events that require the non-federal entity to comply with federal statutes, regulations, and the terms and conditions of federal awards,” which in the SRF programs, refers to equivalency assistance agreements. Meanwhile, standard procedures for financial statements require that federal grant revenue/capital contributions reflect funds drawn from capitalization grants.

From [The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 CFR part 200 \(Uniform Guidance\)](#) guidance on the SEFA

§ 200.502 Basis for determining federal awards expended.

Per 2 CFR § 200.502(a): “The determination of when a federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as...the disbursement of funds to subrecipients....”

Specific Appropriations Considerations

Congress, on occasion, appropriates supplemental SRF funds restricted to specific purposes (e.g., natural disaster relief, economic stimulation, etc.). These funds are in addition to the annual “base” appropriations to each program. Most of these supplemental appropriations have slightly different equivalency rules as explained in any related implementation memoranda or other documents.

For example, the Infrastructure Investment and Jobs Act (IIJA), P.L. 117-58, Nov. 15, 2021, also known as the Bipartisan Infrastructure Law (BIL), includes several restrictive supplemental appropriations that must be used for capitalization grants for particular project types (e.g., emerging contaminants and lead service line replacement and associated activities). Due to these restrictions, all assistance agreements funded with the BIL emerging contaminant and lead service line capitalization grants must comply with all equivalency requirements. Equivalency guidelines for the BIL grants are found in the [Questions and Answers on BIL State Revolving Funds](#).

Appendix 1: Regulatory and Historical Context

The CWSRF regulations at 40 CFR Part 35 introduced the concept of equivalency. The CWSRF regulations define equivalency projects at 40 CFR § 35.3105(f):

Equivalency projects. Those section 212 wastewater treatment projects constructed in whole or in part before October 1, 1994, with funds "directly made available by" the capitalization grant. These projects must comply with the requirements of section 602(b)(6) of the Act.

The regulations also explain what “funds ‘directly made available by’” means at 40 CFR § 35.3105(g):

Funds “directly made available by” capitalization grants. Funds equaling the amount of the grant.

The preamble to the DWSRF regulations in Federal Register Vol. 65, No. 152, Section VII (S) also explained the concept of equivalency:

Federal crosscutter requirements, which include environmental review requirements, must be applied to projects and activities receiving Federal dollars. Because each State’s Fund consists of an indistinguishable combination of Federal, State, and recycled monies, EPA determined that Federal crosscutter requirements must be applied to projects identified by the State whose cumulative funding is equivalent to the amount of the capitalization grant (i.e., equivalency projects).

The DWSRF regulations’ preamble highlights that, because the various funding streams in a DWSRF fund are **fungible** (i.e., “each State’s Fund consists of an indistinguishable combination of Federal, State, and recycled monies”), the equivalency requirements apply to projects **in an amount equal to** the federal capitalization grant, not necessarily to every project that receives disbursements from the federal grant. See also 40 CFR § 35.3575(b), which explains that projects for which a state provides assistance **in amounts up to** the amount of the capitalization grant deposited into the infrastructure loan fund must comply with the federal cross-cutting requirements.

Appendix 2: The Equivalency Requirements

The federal equivalency requirements are listed below. Also provided are links to resources for more information on compliance with each requirement.

| <i>Requirement</i> | <i>Resource/Link</i> |
|---|---|
| A/E Contract Procurement 40 USC 1101, et. seq (“Brooks Act”) (CWA § 602(b)(14)) <i>CWSRF only</i> | Interpretive Guidance for Certain Amendments in the Water Resources Reform and Development Act to Titles I, II, V, and VI of the Federal Water Pollution Control Act |
| Build America, Buy America Act (BABA) (P.L. 117-58, §§70911-70917) | Build America, Buy America (BABA) |
| Disadvantaged Business Enterprise (40 CFR Part 33) | Disadvantaged Business Enterprise Program Under EPA Assistance Agreements (DBE Program) |
| Environmental Crosscutting Laws (such as the Endangered Species Act) | EPA SRF SharePoint – Assistance Recipient Requirements |
| Federal Funding Accountability and Transparency Act (FFATA) | Guidance on Federal Funding Accountability and Transparency Act (FFATA) reporting through Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) data systems Clarification of Federal Funding Accountability and Transparency Act Reporting Requirements in the State Revolving Fund Programs |
| Prohibition on Certain Telecom and Video Surveillance Services/Equipment (2 CFR 200.216) | Prohibition on Certain Telecommunication and Video Surveillance Services or Equipment in the SRF Programs |
| Signage | Guidelines for Enhancing Public Awareness of SRF Assistance Agreements Guidelines for Implementing the Bipartisan Infrastructure Law Signage Term and Condition for the State Revolving Fund Programs Investing in America Signage |
| Single Audit (2 CFR part 200, Subpart F) | OMB Audit Compliance Supplement |
| Socioeconomic Cross-Cutting Laws (such as Debarment & Suspension Executive Order (E.O. 12549)) | EPA SRF SharePoint – Assistance Recipient Requirements |

Appendix 3: Equivalency Implementation Checklist

State SRF programs may use this checklist to help ensure they are properly implementing equivalency.

| | |
|--|---|
| | <p>IUP: Select a group of assistance agreements to be funded in the upcoming year in an amount equal to (or slightly exceeding) the capitalization grant associated with the IUP (to the extent the projects are known). In the DWSRF, set-aside usage will lower the number of infrastructure assistance agreements required to comply with equivalency. Label identified agreements as equivalency assistance agreements.</p> |
| | <p>Assistance Agreements: Ensure that the equivalency assistance agreements require the recipient to comply with:</p> <ul style="list-style-type: none"> • Single Audit requirements (2 CFR part 200, Subpart F) • A/E Contract Procurement requirements (CWA § 602(b)(14) <i>(CWSRF only)</i>) • Environmental Cross-Cutting Laws (list all laws) • Socioeconomic Cross-Cutting Laws (list all laws) • Disadvantaged Business Enterprise requirements (40 CFR Part 33) • Federal Funding Accountability and Transparency Act (FFATA) requirements • EPA Signage Required Term and Condition(s) • Prohibition on Certain Telecom and Video Surveillance Services/Equipment (2 CFR 200.216) |
| | <p>Bid Specifications/Contract Documents: Ensure that recipients of equivalency assistance agreements have included the following equivalency requirements in bid specifications and contract documents:</p> <ul style="list-style-type: none"> • Disadvantaged Business Enterprise requirements (40 CFR Part 33) • Equal Employment Opportunity clauses (EO 11246) • Debarment and Suspension prohibitions (EO 12549) • Build America, Buy America Act (P.L. 117-58, §§70911-70917) <p>Note that other statutory requirements (e.g., Davis-Bacon and Related Acts, American Iron and Steel) may also apply and should be included in bid specifications and contract documents.</p> |
| | <p>FSRS Reporting: Report equivalency assistance agreements in www.fsrs.gov by the end of the month following the execution of the assistance agreement to comply with FFATA requirements.</p> |
| | <p>Project Files: Ensure that project files for equivalency assistance agreements contain the following:</p> <ul style="list-style-type: none"> • [CWSRF Only] Certification from the recipient confirming that A/E contracts were procured in accordance with 40 U.S.C. § 1101 et seq. OR documentation showing that an equivalent state requirement was followed (not applicable if A/E costs were not included in the SRF assistance agreement) • Documentation of a state determination of “no potential effect”, OR concurrence from the agency responsible for administering the law, for each of the environmental crosscutter laws |
| | <p>SEFA: Report all disbursements to equivalency assistance agreements on the SRF program’s Schedule of Expenditures of Federal Awards. Send a notification of federal awards to all recipients of equivalency assistance agreements showing the total SRF disbursements to their project that occurred during the year. The reporting period for the SEFA should match the reporting period for the SRF financial statements (with exceptions as noted in 2 CFR § 200.510(b)).</p> |
| | <p>Financial Statements: If necessary for state auditors, include an explanation of equivalency procedures in the Notes to the Financial Statements.</p> |
| | <p>Annual/Biennial Report: Include the final list of equivalency assistance agreements.</p> |