



Rural Development

RD AN No. **4889** (1942-A, 5001, and 3570-B)
September 19, 2022

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TO: State Directors
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ATTN: Community Programs Directors

FROM: Chad Parker /s/ ***Chad Parker***
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SUBJECT: Community Facilities Direct and Guaranteed Loan Borrowers, and
Grant Recipients Annual Audit and Financial Reporting
Requirements

PURPOSE

This Administrative Notice is issued to clarify the requirements of the Community Facilities (CF) Loan Borrowers and Grant Recipients to submit annual financial reports.

COMPARISON WITH PREVIOUS AN

This AN replaces and updates 4880 (1942-A, 3570-B and 3575-A) dated May 11, 2021.

“OMB Circular A-133 Audit Reporting Requirements, Community Facilities Direct and Guaranteed Loan Borrowers and Grant Recipients”, dated January 12, 2017 discussed OMB Circular A-133 requirements. 2 CFR Part 200, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Subpart F” now governs audit requirements for CF Borrowers and Grantees.

BACKGROUND

The Agency has received numerous inquiries regarding the requirement for the annual financial reports. 2 CFR Part 200 Subpart F establishes when an audit report is required. RD Instruction 1942-A, §1942.17(q)(4) outlines the requirements for the borrower’s annual financial report or those borrowers which do not meet the threshold of 2 CFR Part 200 Subpart F to submit an audit report. RD Instruction 3570-B, §3570.83 outlines the requirements for grantees submission of annual audit reports.

EXPIRATION DATE:
September 30, 2023

FILING INSTRUCTIONS:
Preceding RD Instructions
1942-A, 5001, and 3570-B

AUDIT REPORTS

2 CFR Part 200, Subpart F establishes audit requirements that borrowers must follow.

Federal funds expended during a Borrowers fiscal year: 2 CFR Part 200, §200.501(a) requires a borrower that expends \$750,000 or more in Federal Awards in their fiscal year to submit a single or program-specific audit. A CF Direct Loan, Loan Guarantee, and CF Grant would be considered a Federal Award.

Grantees: Grantees that expend \$750,000 or more in a year in Federal awards must have an audit conducted in accordance with 2 CFR Part 200 Subpart F-Audit Requirements except when they elect to have a program specific audit conducted.

Prior loan and loan guarantees: 2 CFR Part 200, §200.502(b) establishes the basis for including loan and loan guarantees (loans) on the Schedule of Expenditures of Federal Awards (SEFA). The value of new loans made or received during the audit period plus the beginning of the audit period balance of loans from previous years for which the Federal Government imposes continuing compliance requirement must be reported on the SEFA. CF Program loans require its borrowers to meet continuing compliance requirements as discussed below under CONTINUING COMPLIANCE REQUIREMENTS.

SUBMISSION OF AUDIT REPORTS

Borrowers and grantees must submit audits within nine months from the end of the borrower's fiscal year or 30 days after receipt from the auditor whichever is earlier. The audited financial statements must be submitted to the Federal Audit Clearinghouse.

BORROWERS EXEMPTED FROM AUDIT REQUIREMENTS

2 CFR Part 200, §200.501(d) exempts a borrower or grantee from audit requirements if the borrower or grantee does not expend \$750,000 in Federal Awards in their fiscal year. For those borrowers and grantees that do not expend nor have outstanding loan balances of \$750,000 or more must comply with RD Instruction 1942.17(q)(5) which states all borrowers who are exempt from Rural Development audit requirements and who do not otherwise have annual audits, will within 60 days following the end of each fiscal year, furnish the Rural Development Area Director with annual financial statements, consisting of a verification of the organization's balance sheet and statement of income and expense by an appropriate official of the organization. Forms RD 442-2 "Statement of Budget, Income and Equity" and 442-3 "Balance Sheet" may be used. For borrowers using Form RD 442-2, the dual purpose of fourth quarter management reports, when required, and annual statements of income will be met with this one submission.

CONTINUING COMPLIANCE REQUIREMENTS

CF borrowers are required to fund reserves, maintain insurance, deposit funds in Federally insured banks, meet financial covenants, maintain sufficient debt service ratios, comply with civil rights requirements, and in some cases comply with additional requirements established as part of the loan approval process. The above illustrates the continuing compliance requirements that CF borrowers must meet. As noted in the 2 CFR Part 200 Appendix XI, "Compliance Supplements for July 2020 and 2021, USDA expects borrowers to comply with the continuing compliance requirements as well as borrowers' audits to comply with 2 CFR 200, Subpart F.

FINANCIAL STATEMENTS

In accordance with RD Instruction 1942-A, 1942.17 (q)(5), borrowers and grantees not meeting the threshold for submitting an audit report must provide financial information utilizing Forms RD 442-2 and RD 442-3. This ensures the verification of their balance sheet and statement of income and expenses. Borrowers have 60 days following the end of their fiscal year to submit to the Agency their financial statements. Grantees who are not required to submit an audit report will within 60 days following the end of the fiscal year in which any grant funds were expended furnish the Agency with annual financial statements.

SUMMARY

CF Borrowers and Grantees who expend \$750,000 or more in their fiscal year, have CF loan balances totaling \$750,000 or more, or a combination of the two must submit an audit in accordance with 2 CFR 200 Subpart F. CF Borrowers and Grantees who do not expend or have loan balances of \$750,000 or more must submit financial statements within 60 days of the end of their fiscal year.

If you have any questions, please contact the appropriate Asset Risk Management Specialist in your region.