

# Ask Me Anything! How to Prepare for a Financial Review

## 6.4.2025

### Quick recap

Ashley welcomed participants to the bi-monthly "Ask Me Anything" office hours session and provided an overview of State Revolving Loan Fund (SRF) programs, including details about funding allocation and financial review processes. She discussed various financial components and requirements for applying for SRF loans, emphasizing the importance of audited financial statements, budget planning, and maintaining proper cash reserves. The session covered key financial metrics and credit review criteria for SRF loans, with Ashley announcing upcoming training sessions on user rate calculations and Federal award compliance while inviting participants to contact her with further questions.

### Next steps

- Communities to gather financial documents (audit, profit/loss statement, revenues/expenses) in advance of applying for SRF funding.
- Utilities to consider projecting budgets beyond just the next fiscal year to account for fluctuating costs and testing requirements.
- Communities to obtain a Unique Entity ID (UEI) through SAM.gov as soon as possible if contemplating an SRF project.

### Summary

#### SRF Funding Application Overview

Ashley provided an overview of State Revolving Loan Fund (SRF) programs, explaining how federal and state funds are allocated and managed. She emphasized that financial reviews often begin with the funding application process, which varies by state but typically requires both a funding application and a separate project approval. Ashley highlighted Rhode Island as an example of a state with multiple applications, where communities must apply to both the Rhode Island Infrastructure Bank (RIIB) for funding and the Department of Health (RIDOH) or Environmental Management (RIDEM) for project approval.

#### Financial Review and Funding Preparation

Ashley discussed the importance of financial review components and sources for applying for funding, emphasizing the need to be prepared to answer questions about policies,

procedures, debt plans, and socioeconomic factors. She highlighted the significance of affordability metrics, which vary by state and underwriting authority, and stressed the importance of collecting necessary data in advance to streamline the underwriting process.

## Audited Financial Statements Overview

Ashley explained the importance of audited financial statements, highlighting their role as a key tool for understanding a community's financial health. She noted that while audits provide valuable insights, the information is often outdated by the time it is published, with the final audit results not available until several months after the fiscal year end. Ashley also distinguished between regular financial audits and single audits, explaining that single audits include an additional layer of review focused on compliance with Governmental Accounting Standards Board (GASB) standards for communities receiving federal funds.

## Single Audit Threshold Strategies

Ashley explained the new single audit threshold of \$1 million for federally reimbursable costs, up from \$750,000, and discussed strategies for communities to manage project schedules to stay under this threshold. She emphasized the importance of having proper financial policies and procedures in place, particularly for handling delinquencies and water conservation. Ashley also highlighted the need for communities to have budgets and financial statements, such as profit and loss statements, to prepare for financial reviews and loan applications. She advised communities to conduct financial reviews in advance of applying for loans to ensure a smoother process and build confidence in their financial management.

## Budget Planning for Infrastructure Investments

Ashley discussed the importance of considering various budget quadrants when planning infrastructure investments, emphasizing the need to focus on expenses first and then review revenue needs. She highlighted the importance of accounting for both initial investments and ongoing maintenance costs over an asset's useful life, as well as the need for reserve funds to cover unexpected expenses. Ashley stressed the importance of having a clear budget plan in place before applying for funding to ensure public support and smooth financial underwriting processes.

## Utility Financial Management Strategy

Ashley discussed the importance of maintaining 180 days of cash on hand for utilities, emphasizing the need for fungibility and addressing issues like non-revenue water. She highlighted the necessity of reviewing all financial documents, including delinquency rates,

cash flow, and potential future investments. Ashley also mentioned the need for collaboration among different departments to ensure a comprehensive understanding of the utility's financial status. She concluded by introducing an upcoming session on user rate setting, emphasizing that revenue generation is a continuous process rather than a one-time event.

### Asset Management and SRF Criteria

Ashley discussed the relationship between asset management plans and capital improvement plans, explaining how asset management provides a comprehensive view of system assets and their replacement needs over time, while CIP focuses on funding and implementing replacements over a short time, 5-7 years for example. She outlined various financial metrics and credit review criteria that communities will likely need to meet to qualify for SRF loans, including the importance of having appropriate loan securities and completing fraud checks by registering with SAM.gov.

### SRF Loan Financial Planning Insights

Ashley discussed the importance of accurate financial projections for water utilities, particularly for communities seeking SRF loans. She emphasized that costs for chemicals and monitoring can fluctuate significantly from year to year, and utilities should account for these variations in their budget planning. Ashley also explained that states must demonstrate a utility's technical, managerial and financial capacity to receive SRF loans, with some states requiring more detailed financial information than others. She noted that EPA audits state programs annually to ensure compliance with federal rules and state policies, and that states can lose up to 20% of their capitalization grant if they fail to follow their own capacity development strategies.

### SRF Loan Financing Overview

Ashley explained that SRF loans require no match, making them a 100% financing option, and clarified that SRF funds can be used as a non-federal match for other federal grants. She also discussed how state programs may impose loan origination or administration fees, but these are typically part of the annual loan payments. The session concluded with Ashley inviting participants to contact her with further questions and noting the next meeting would be held on June 16th at 2 PM Eastern time.

*Disclaimer: this summary was generated using AI but was reviewed and edited by a Human.*

## From the Chat:

C: [with respect to addressing non-revenue water] Make sure ALL buildings are metered (fire dept, pool, etc)

C: On a related note, for the Capacity Development financial worksheets (Drinking Water SRF only), please keep in mind in future projections section that costs of chemicals, salaries, electricity, etc. increase every year. If the costs for those budget items do not increase every year, the SRF program may question those financials. And if communities are not aware, the EPA does audit State programs every year to ensure compliance.

C: Thanks Ashley. This was helpful as always. See you at the next one.

Q: Hi! New to the AMA... Can you share "creative" strategies for raising funds to match the SRF loans?

*A: SRF loans do not require a match. In addition, SRF loans can be used as a 'non-federal match' for federal grants. Repayment funds, aka Tier II funds, lose their federal designation once revolved back into the program. This is a nuance state SRF staff may not understand and should be made aware of.*

C: Your state may impose a loan origination fee, but in most cases that can also be rolled into the loan.

C: Very helpful! Thank you!

C: Thank you. Appreciated.