



CUSTODIAL ACCOUNTING HANDBOOK FOR MUTUAL SELF-HELP GRANTEES

February 2025 v4

*RURAL DEVELOPMENT SECTION 523
MUTUAL SELF-HELP HOUSING PROGRAM*

Disclaimer

A handbook for grantees of the United States Department of Agriculture (USDA) Section 523 Self-Help Housing Program developed jointly by the Self-Help Housing Technical and Management Assistance (T&MA) Contractors:

- *Florida Non-Profit Housing, Inc. (FNPH)*
- *LIFT Community Action Agency, Inc. (LIFTCAA)*
- *NeighborGood Partners*
- *Rural Community Assistance Corporation (RCAC)*

Funded by: *United States Department of Agriculture, Rural Development*

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Region I	Region II
Florida Non-Profit Housing, Inc.	LIFT Community Action Agency, Inc.
P.O. Box 1987	209 North 4 th Street
Sebring, Florida 33871-1987	Hugo, Oklahoma 74743
(863) 385-2519	(580) 326-5165
www.fnph.org	www.liftca.org
Region III	Region IV
NeighborGood Partners	Rural Community Assistance Corporation
363 Saulsbury Road	3120 Freeboard Drive, Suite 201
Dover, Delaware 19904	West Sacramento, California 95619
(302) 678-9400	(916) 447-2854
www.neighborgoodpartners.org	www.rcac.org

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INTRODUCTION TO THIS HANDBOOK

This **Custodial Accounting** handbook was created to aid in the fiscal management of **502/504 loan funds** administered by New and Operating grantees on behalf of the owner/builders participating in USDA Rural Development's (RD) self-help programs.

What this handbook is not about:

- 523 Technical Assistance grant funds awarded to mutual self-help organizations.
- [Supervised Bank Accounts \(SBAs\)](#), which are still used by some USDA RD offices and self-help organizations to administer the loan funds of family borrower/builders; the link above provides guidance on the use of SBAs.



This handbook *is* about custodial account administration. It offers ample information and forms, guidance, checklists, etc., to help you and your organization establish responsible fiscal practices as you serve in your role as custodian of the loan funds that belong to your qualified family builders. You must adhere to the required elements of internal controls, you must accurately account for fund management, and you must provide clear financial reporting. Written financial policies and procedures must be developed and followed by your organization, along with detailed recordkeeping. Both RD and the loan recipients must be provided accurate financial reporting regarding the family builder's loan management on a regular basis. As custodian, you are responsible for ensuring transparency as to the loan balance and the actual and the anticipated expenses incurred throughout the build process. This handbook was designed to help guide you through carrying out that responsibility.

Note that this is one of four financial handbooks produced by the T&MA Contractors. The other handbook covers the overall topic of 502 loan fund accounting, see *Accounting for Individual Borrower 502 Loan Accounts Handbook*. In addition to this handbook, there is a *Self-Help 502 Loan Guidebook* referencing loan calculations. And finally, there is the *Financial Management Handbook for Federally Funded Organizations* that covers broad aspects of financial management and compliance requirements for the self-help program.

BACKGROUND

In the beginning ...

Historically, all self-help program loan accounts were managed by USDA RD staff in coordination with active 523 Technical Assistance awarded grantee staff. The USDA RD office opened and managed a SBA for each family builder loan applicant that was approved (see link above on page 2 to *Supervised Bank Accounts* for further details). The grantee would then aid in securing the family builder/loan recipient approval signatures on both financial accounting reports and check payments to vendors. However, for many, the SBA system created time delays as requests, approvals and check payments were transferred in between national, state and local offices. Custodial account management was offered as a method to improve efficiency. The [1944-I](#) Housing: Self-Help Technical Assistance Grants Instruction document (effective date 10/24/2024) is the source for custodial accounting instruction.

The goal was to streamline the efficiency and timeliness of payments to vendors through a reduction in the number of checks that must be written and co-signed for each family. Improved accuracy and transparency of fund management for the family builder loan recipients would also occur as there is but one source of fund management to report on loan expenditures, aggregates and balances. The administrative burden on RD and the grantees was also lessened through grantee-site management of the funds, as it simplified the process and reduced the number of times checks had to be handled before distribution of payment.

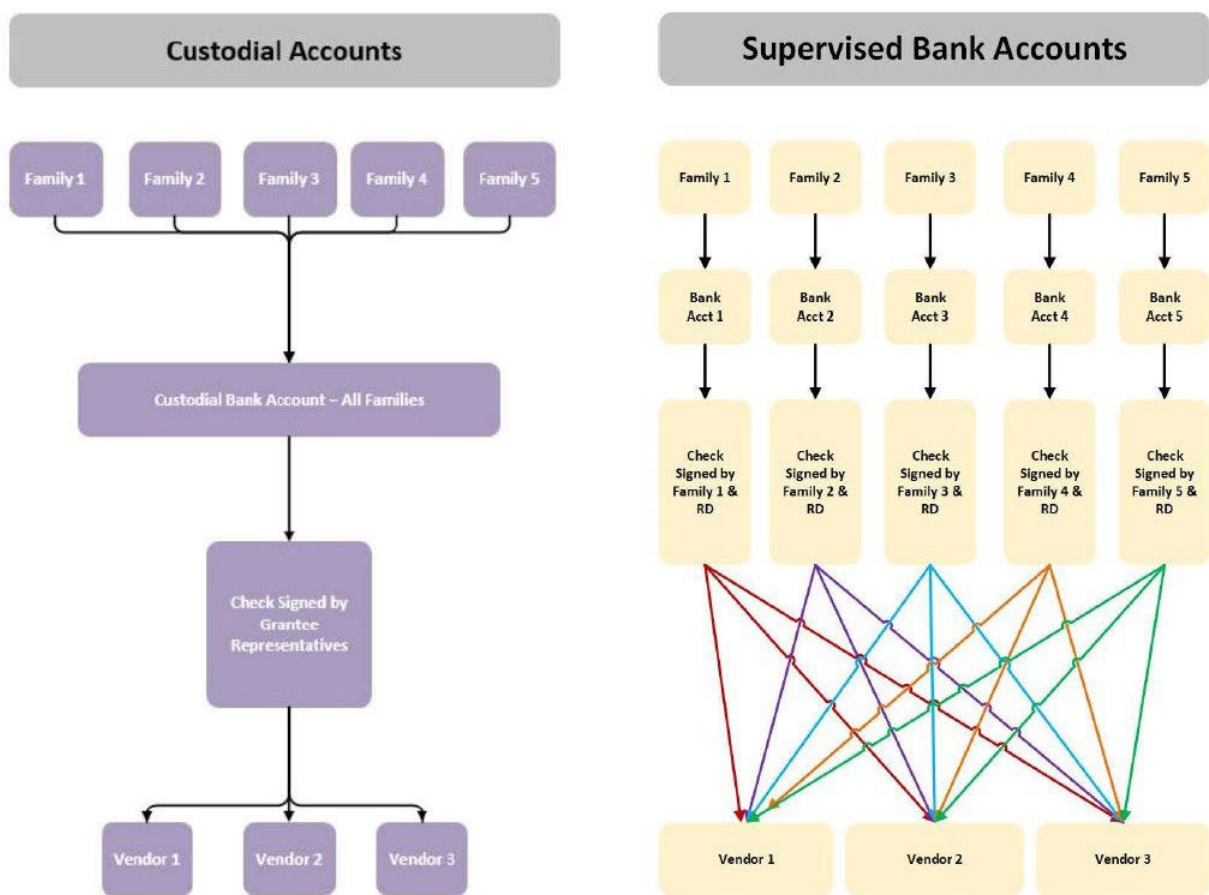


Figure comparison of Custodial Account and SBA process flow

CUSTODIAL ACCOUNTING OVERVIEW

How it Works:

Throughout the construction process, a portion of each participating family's individual 502 or 504 loan funds are deposited into a single custodial account held in collective trust by the grantee for each of the families of the build group until the funds are disbursed to various vendors and/or contractors for payment.

- Grantee opens a single custodial checking account for collective deposits and payment activity for all families in the build group.
- Grantee maintains a separate custodial bookkeeping account ledger for each participant family/borrower in the build group.
- Individual check draws from each family's 502 or 504 loan are requested from USDA RD's field office, payable to the grantee.

- Draws from each participant family received from USDA RD are deposited into the collective custodial build checking account.
- Invoices for construction expenses are entered into the custodial bookkeeping account ledgers for each family.
- One check payment is then issued by the grantee to each vendor to cover constructions costs for all participating families for the invoice period.
- At the conclusion of the build, any remaining fund balance per family participant is returned to USDA RD and is applied as a reduction to the family's loan principal.

Note that negotiation may be necessary to accommodate slight variances among state RD offices' best practices and working timelines.

ELIGIBILITY OF A GRANTEE CUSTODIAN

Minimum Custodial Accounting Requirements for the Grantee (approval is at the discretion of RD State Office):

1. The grantee should have successfully completed at least one previous grant cycle (RD may waive this requirement).
2. The grantee has a record-keeping system, which shows that the cost of the materials and services were allocated to each borrower's account in relation to the actual material and service used by each borrower.
3. Custodial accounts maintained by the grantee on behalf of a Self-Help group with funds exceeding \$250,000 (the FDIC insurance level) at any time must have acceptable collateral pledged with the Federal Reserve Bank in an amount not less than the excess as outlined in RD Instruction 1902-A §1902.7. To avoid this situation, the USDA RD field office should monitor the custodial account as draws are requested. It may be advantageous for the grantee to make smaller draws on the borrower's accounts, as funds are needed; more frequent check requests may result in less interest charges and less Federal Deposit Insurance Commission (FDIC) insured risk.
4. Per 1944-I, the family builder 502 loan files must be examined by the grantee's auditor during the fiscal year audit. In accordance with RD Instruction §1944.422, "... *Audits of the borrower loan funds will be required. The number of borrower accounts audited will be determined by the auditor. In incidents where it is difficult to determine the appropriate number of accounts to be audited, auditors should be authorized by the State Director to audit the lesser of 10 loans or 10 percent of total loans. Audits of the borrower funds do not necessarily need to be tested in the same manner as the organizational audit. Agreed Upon Procedures (AUPs) may be developed and used for the Section 502 or 504 loan funds in custodial accounts. At a minimum, an AUP engagement will include a review of the draw requests to ensure charges listed can be traced back to source documents and a reconciliation of the financial institution's account record ...*"

ESTABLISHING THE CUSTODIAL BANK ACCOUNT & THE CUSTODIAL FUND MANAGEMENT “COMPANY”

The **custodial bank account** should be established under the Federal Tax ID number of the grantee. However, the funds are held in trust for the borrower families and do not belong to the organization; therefore, deposits made into this account and the disbursements made from this account should not be recorded as income and expenses for the organization (the transactions should be absent from the organization's Profit & Loss financial reports). If the organization does elect to recognize the restricted loan funds as part of the financials, the transactions should be reflected only as Balance Sheet activity, recognizing the custodial bank account funds as a restricted asset for which there is an equal offset liability account present on the report.

- The custodial account should be set up as non-interest bearing. The benefit of nominal interest earned on these funds is outweighed by the difficulty of allocating that interest to the participating families. Interest earned is not allowable income to the grantee either, as the funds belong to the families.
- Policies and procedures should be created, followed and evaluated regularly to ensure internal controls and minimal risk management of the 502 loan funds, specify how/when you draw funds, how/when finances are reviewed with family builders, who among the grantee staff prepares reports or financial presentations with a clear separation of duties. (This handbook language may be used as a template springboard for your organization's policies and procedures, with adaptation of your specific roles and practices).
 - One of these controls should include the selection of two authorized check signers for each check disbursement made from this bank account.
- The grantee must set up an **accounting system** to accurately track the funds in the collective custodial account by fund accounting by each participating family. Ideally a separate accounting 'Company', with its own Chart of Accounts, will be created for the custodial fund management.
 - A separate chart of accounts and company for the Custodial Fund account management will produce the most efficient financial reports for construction/home building, e.g., *Excavation, Footing, Plumbing, Electrical, Drywall, Sewer Tap Fee* (vs. *Wages, Fringe, Conference Travel, Marketing...* in our existing organization Chart of Accounts).
 - A subsidiary ledger in the corporate accounting system may be used, if that system is sophisticated enough to track the custodial activity without including it in the profit and loss statement of the organization (again, these are loan funds belonging to the individual family builders, these funds do not belong to the organization).
 - [Techsoup](#) offers deep discounts for software to nonprofit organizations if you are in search of financial software management systems.

SAMPLE CHART OF ACCOUNTS FOR CUSTODIAL ACCOUNT "COMPANY"

Income
4000 • 502 Loan Draws
Total Income
Expense
6207 • Building Permit Fee
6208 • Sewer Tap Fee
6209 • Water Tap Fee
6210 • Lot
6212 • House Plan
6213 • Architect
6214 • Engineering
6220 • Temp Utilities
6225 • Trash & Toilet Service
6230 • Excavation
6240 • Concrete
6245 • Rough Carpentry
6250 • HVAC
6253 • Roofing
6254 • Plumbing
6273 • Drywall
6275 • Interior Millworks
6279 • Paint
6280 • Flooring
6283 • Cabinets
6286 • Countertops
6292 • Garage Door
6293 • Gutters
6295 • Landscaping
Total Expense
Net Income

SAMPLE BUILD GROUP: BUILDER (CUSTOMER: JOB) LIST FOR FUND ACCOUNTING

New Customer & Job ▼ New Transactions ▼		
Customers & Jobs		Transactions
Active Customers ▼		>
<input type="text"/>		<input type="text"/>
NAME	BALANCE T...	ATTACH
♦ FHLB	0.00	
♦ Galaxy 1	0.00	
♦ Carter, John	0.00	
♦ Kirk, John T.	0.00	
♦ Princess, Leia	0.00	
♦ Skywalker, Lilly	0.00	
♦ Spock, John	0.00	
♦ Stark, Chloe	0.00	
♦ Wells, Helen G.	0.00	
♦ Wolverine, Hugh	0.00	
♦ Galaxy 2	0.00	
♦ Mandalorian, The	0.00	
♦ USDARD	0.00	

ESTABLISHING THE CUSTODIAL FUND DRAW SCHEDULE

- Establish a schedule for drawing the family builder loan funds: The custodial **502 draw schedule** varies and is determined by USDA RD staff and the grantee. Care in managing the amount and frequency of the draws must be taken into consideration as interest will begin accruing on the loan funds once they are drawn. Consideration of prompt payment to contractors/vendors will aid in maintaining positive working relationships and therefore must also be factored into the timeline. There are generally two methods by which to draw the 502 loans on behalf of the families: *Note that USDA RD and/or the grantee may negotiate to adjust or combine any terms, documentation requirements and/or timelines described below.*

- Advance/Construction Progress Draws: The grantee will present the draw request to USDA RD based upon the construction budget and/or the build progress; the timeline may be determined (e.g., a draw once a quarter, once a month, etc.) or may be flexible based upon construction purchase needs.
- Cost-Reimbursement Draws: The grantee assumes all construction costs up front, utilizing their own unrestricted funds, and then presents the draw request for reimbursement to USDA RD based upon actual costs to date, timelines may vary but are typically calendar based, e.g., a draw once a quarter, once a month, etc., until the build is complete.

RECORDING THE RECEIPT OF THE DRAW (REVENUE) & THE EXPENSES

The **502/504 draw deposit**: The checks from the US Treasury are distributed from the individual family loan fund accounts and routed to the USDA RD office. The checks are logged by RD staff and then forwarded on to the grantee for deposit into the custodial account. Prior to depositing the grantee endorses the check and records the receipt of the loan fund amount to each family builder's ledger.

- The grantee must accurately **account for each family's individual construction costs** within the 'company' or fund account based on construction invoice review with the Construction Supervisor and/or Purchase Orders (PO's) for the home and/or cost allocation for shared costs on the project, dumpster, temporary site power, etc. ***The pro-rated method must be documented on each invoice showing the cost distribution.***

☒ Bill
 ☐ Credit
 Bill Received

Bill

VENDOR: Vulcan Engineering

ADDRESS: Vulcan Engineering

TERMS:

MEMO: Engineering Expenses

DATE: 06/14/2021

REF. NO.:

AMOUNT DUE: 6,400.00

BILL DUE: 06/24/2021

ACCOUNT	AMOUNT	MEMO	CUSTOMER:JOB
6214 - Engineering	800.00	Engineering Expenses-John Carter	Galaxy 1:Carter, John
6214 - Engineering	800.00	Engineering Expenses-John Kirk	Galaxy 1:Kirk, John T.
6214 - Engineering	800.00	Engineering Expenses-Leia Princess	Galaxy 1:Princess, Leia
6214 - Engineering	800.00	Engineering Expenses-Lilly Skywalker	Galaxy 1:Skywalker, Lilly
6214 - Engineering	800.00	Engineering Expenses-John Spock	Galaxy 1:Spock, John
6214 - Engineering	800.00	Engineering Expenses-Chloe Stark	Galaxy 1:Stark, Chloe
6214 - Engineering	800.00	Engineering Expenses-Helen G. Wells	Galaxy 1:Wells, Helen G.
6214 - Engineering	800.00	Engineering Expenses-Hugh Wolverine	Galaxy 1:Wolverine, Hugh

- The **vendor payment schedule is determined by the grantee** (weekly, bi-weekly, monthly, again prompt payment supports positive contractor relations).
 - The vendors will receive one check from the grantee's custodial account in the amount due for work performed for multiple families or for the group as a whole.
- Other credits – Refunds from contractors and/or other Accounts Payable entities may be issued direct to the grantee throughout the build; the grantee must allocate and apply credits to individual family ledgers as appropriate.

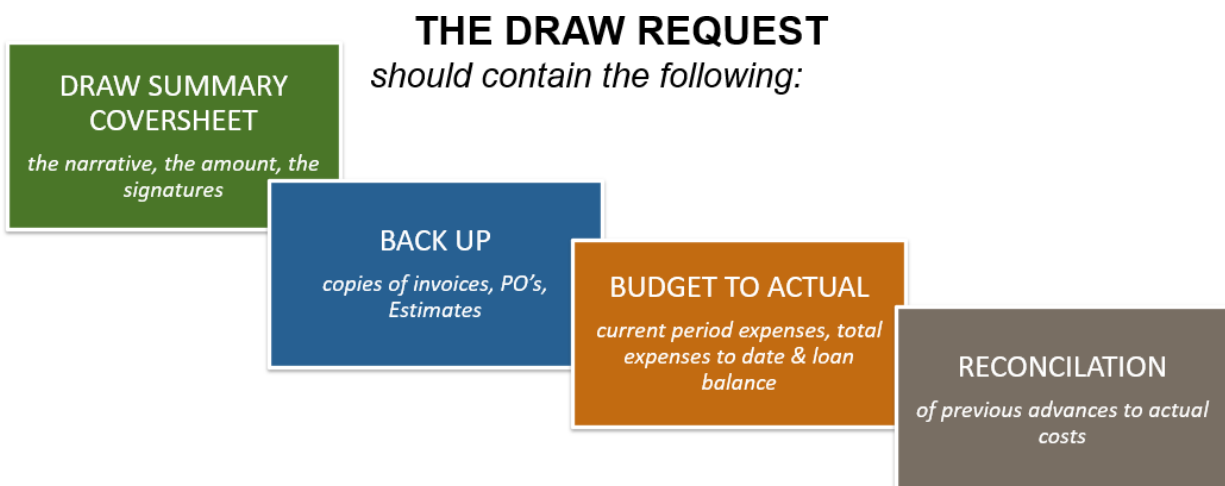
FINANCIAL REPORTING

The **grantee must consistently update the family borrowers on the financial status of their individual 502 or 504 loan**. This financial and budget-to-actual review can be tied to the draw schedule, or it may be conducted on a separate timeline (e.g., on a regular schedule of bi-weekly, monthly, bi-monthly)

- The financial review must be clear, thorough and contain itemized detail of each construction expense, the loan balance, and a reconciliation of any advancement draws.
- Review and provide copies of all checks paid (two signatures) to vendors.
- These meetings also offer opportunities for owner/builder decisions, e.g. fixture choices compared to budget, and can be a valuable project management tool.
- See the *Budget-to-Actual* sample below in the **REQUESTING THE DRAW** section for reference.

REQUESTING THE DRAW

The grantee will prepare a **draw request packet** and present the request to USDA RD for payment on behalf of the borrower's 502 or 504 loan funds. This packet should contain the following **documentation**:



DRAW SUMMARY COVERSHEET

- The total funds being requested for the period.
- Signatures of the family loan borrower and the grantee custodian, acknowledging invoice payment approval and awareness of the loan status and balances.
- A narrative of construction progress/phase; *tell the story of what is currently happening on the build site(s).*

SAMPLE

Construction Draw Request

May 3, 2020

Draw Request #2

Grantee's Name: Self-Helper

Group #:

15

Borrowers Name: Builder Person

Property Address: 711 Sunshine Lane (site#2)

Loan No: 123456

Invoice #	Payable To	Description	Amount
10001	Company Name	foundation	16161.66
ABCR	Holm Const	excavation	2430.00
2	Holbrook Const	framing materials	1489.32
receipt	Home Depot	wallplate/electric material	9.61
TOTAL			\$ 20,090.59

Total Construction Loan:	\$ 272,556.00	Amount of Draw Request	\$ 20,090.59
Total Draws to Date:	\$ 152,730.59	Fund Balance	\$ 119,825.41

Borrower Signature/Date

Grantee Signature/Date

By signing this document, I agree to the draw amount as shown above and release funds to the Custodial Account held by Self-Helper Grantee for payments as required in construction of my home through the Mutual Self-Help Housing Program. I am also aware of the budget and the actual costs of all construction expenses to date.

Construction Draw Request

May 3, 2020

Draw Request #2

Granbee's Name: Self-Helper

Group #:

15

Borrowers Name: Builder Person

Property Address: 711 Sunshine L

Loan No: 123456

Construction Narrative:

The financing & permits have been covered - job site preparation is well under way; this draw (draw #2) reconciles the initial closing draw and is covering only actual invoices related to excavation and foundation work, along with misc. supply receipt & invoice for framing materials

Delays in material shipments continue to cause delay in construction, though we are not too far behind.

BACK UP copies of each corresponding construction invoice(s)/and or Estimates/PO's for the projected payment or reimbursement period. Building and code inspection reports along with photos of the construction progress should also be included with the financial backup materials, as applicable.

The allocation method must be shown for each expense itemized and charged to each individual family builder.

FREE PRINTABLE CONSTRUCTION INVOICE TEMPLATE

YOUR LOGO

COMPANY NAME
 123 Main Street
 Anytown, CA 90210
 (555) 434-7890
 Email@Company.com

CLIENT

John Doe / Dept
 456 Elm Street
 12345 Town
 Anytown, CA 90210
 Email@Company.com

INVOICE

DATE OF INVOICE **INVOICE NO.**

01/15/2020 10000

DATE OF WORK **DATE DUE**

01/15/2020 01/15/2020

Payment due BY **01/15/2020**

APPROVED BY **Company Name / Account**

QTY	Description	Unit	Rate	Total
1	Removal of Foundation wall of 1st floor	200.00	1,000.00	
4	Removal of concrete foundation wall of 2nd floor	100.00	400.00	
3	Earth excavation and hauling of surface from 2nd floor	120.00	200.00	
13	Placement of PCC	50.00	1,100.00	
20	Placement of concrete	140.00	4,000.00	
24	Removal of concrete from foundation	200.00	7,000.00	
TOTAL INVOICED				\$14,700.00

ADDITIONAL CHARGES

Transportation of materials 400.00

Consultation with architect 100.00

TOTAL ADDITIONAL CHARGES **\$1,400.00**

GRAND TOTAL DUE **\$16,100.00**

CUSTOMER RECEIVED	TOTAL AMOUNT
DATE	\$16,100.00
SIGNATURE	DATE
_____ CUSTOMER SIGNATURE	_____ DATE

For customer requesting the invoice, please contact:

HOLTA CHOLM CONSTRUCTION <i>Building Your Dream</i> <small>10000 Highway 100 • Houston, Texas 77055 • 281-461-1000</small>		INVOICE #45218 Date: 05/12/08																
BILL TO: Latta Development 10000 Highway 100 Suite 200 Houston, TX 77055		Per Month At Job Site: Contract # 05-00000000 Invoice # 05-00000000 Invoice (On Order)																
Contract P.O. # 0500000000		Drawn: 05/12/08																
Project Name: Latta		Drawn By: Designer																
Job Description: Job Phase: Construction Job Phase: Foundation	Date:	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;">ITEM</th> <th style="width: 20%;">QUANTITY</th> <th style="width: 20%;">UNIT PRICE</th> <th style="width: 20%;">AMOUNT</th> </tr> </thead> <tbody> <tr> <td>Foundation</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Foundation</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Foundation</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	ITEM	QUANTITY	UNIT PRICE	AMOUNT	Foundation				Foundation				Foundation			
ITEM	QUANTITY	UNIT PRICE	AMOUNT															
Foundation																		
Foundation																		
Foundation																		
Job Price: Foundation		Amount: \$1,650.00																
Invoice Total: \$1,650.00		Invoice Total: \$1,650.00																

This invoice is guaranteed to be typewritten and to be performed in accordance with the drawings and specifications submitted. It is a substantial and enforceable contract.



Holbrook Construction

3675
 John Pugh
 1000 Washington Ave
 (303) 440-0000 • 10000 1st St NE

Invoice #
Invoice Date
Invoice To
Invoice From
Payment Terms
Due Date

Description	Quantity	Rate	Amount
1000 sq ft of finished under area	1	\$100.00	\$100.00
1000 sq ft of finished under area	1	\$200.00	\$200.00
1000 sq ft of finished under area	2	\$150.00	\$300.00
Grand Total			\$600.00

Description	Quantity	Rate	Amount
1000 sq ft of finished under area	1	\$100.00	\$100.00
1000 sq ft of finished under area	1	\$200.00	\$200.00
1000 sq ft of finished under area	2	\$150.00	\$300.00
Grand Total			\$600.00

Invoice #
Invoice Date
Invoice To
Invoice From
Payment Terms
Due Date

 **Pay Here**
 10000 1st St NE
 3675 John Pugh

Balance Due
\$600.00

[illegible]

Equal split sites
1 & 2
\$ 1489.32 ea

Hardware bill	\$874.72
Equal distribution	
#15-Smith	124.96
#14-Garcia	124.96
#13-Zhang	124.96
#12-Lee	124.96
#11-James	124.96
#10-Rameriz	124.96
#9-Haus	124.96

BUDGET-TO-ACTUAL report for the individual family loan ledger:

Sample Builder - Lot 22, Sample Landing Plot II

	CURRENT PERIOD EXP	TOTAL EXP TO DATE	BUDGET	BALANCE
Custodial Account				
CLIENT BANK ACCOUNTS	\$	172,314.00	\$ 231,322.00	\$ 59,008.00

Borrower funds for construction	CURRENT PERIOD EXP	TOTAL EXP TO DATE	BUDGET	BALANCE
USDA 502	\$	126,761.00	\$ 185,769.00	\$ 59,008.00
HOMESTART FUNDS	\$	-	\$ -	\$ -
HOMEOWNER DOWN PAYMENT	\$	45,553.00	\$ 45,553.00	\$ -
TOTAL FUNDING	\$	172,314.00	\$ 231,322.00	\$ 59,008.00

Borrower Construction Budget	CURRENT PERIOD EXP	TOTAL EXP TO DATE	BUDGET	BALANCE
BUILDING SITE		\$ 37,692.00	\$ 37,692.00	\$ -
CLOSING COSTS		\$ 4,600.00	\$ 4,600.00	\$ -
FOUNDATION		\$ 24,980.00	\$ 24,980.00	\$ -
CONTINGENCY		\$ 5,000.00	\$ 5,000.00	\$ -
PLANS & INSPECTIONS		\$ 3,450.00	\$ 3,450.00	\$ -
FRAMING/INSULATION/ROOFING		\$ 36,245.00	\$ 36,245.00	\$ -
TRASH REMOVAL/PORTABLE TOILET		\$ 910.00	\$ 1,100.00	\$ 190.00
ELECTRICAL	\$ 8,512.00	\$ 8,512.00	\$ 9,400.00	\$ 888.00
PLUMBING	\$ 26,915.00	\$ 26,915.00	\$ 29,550.00	\$ 2,635.00
UTILITY HOOKUPS/TEMPORARIES		\$ 6,010.00	\$ 6,010.00	\$ -
LANDSCAPING/HYDROSEEDING		\$ -	\$ 1,500.00	\$ 1,500.00
DRYWALL		\$ 2,500.00	\$ 16,295.00	\$ 13,795.00
APPLIANCES		\$ -	\$ 1,400.00	\$ 1,400.00
FLOOR & CABINETS		\$ 2,000.00	\$ 10,000.00	\$ 8,000.00
EXCAV/FINAL GRADE/LANDSCP		\$ -	\$ 25,800.00	\$ 25,800.00
WELL		\$ 13,500.00	\$ 13,500.00	\$ -
FINISH ITEMS		\$ -	\$ 4,800.00	\$ 4,800.00
TOTAL COST TO CONSTRUCT	\$ 35,427.00	\$ 172,314.00	\$ 231,322.00	\$ 59,008.00

For advances, a **RECONCILIATION** of the previous advance draw should be included with the next draw showing the actual costs compared to the advance and/or a reconciliation to the build progress and cost timelines:

LOAN AMOUNT \$272,556

Builder Person
711 Sunshine Lane (site #2)

DRAW REQUEST RECONCILIATION

	1st Draw 1/1/19-3/31/20	2nd Draw 4/1/20-5/12/20	3rd Draw 5/13/20-8/31/20	4th Draw 9/1/20-12/31/20	5th Draw 1/1/21-3/31/21	6th Draw 4/1/21-6/30/21	7th Draw 7/1/21-8/31/21	8th Draw 9/1/21-9/30/21	Contingency 10/1/21-10/31/21	Total
Draws	\$ 132,640.00	\$ 20,090.59	\$ 32,927.54	\$ 31,965.75	\$ 22,540.00	\$ 23,698.30	\$ -	\$ 8,693.82	\$ -	\$ 272,556.00
Actual Expenses	\$ 130,477.87	\$ 20,090.59	\$ 38,380.04	\$ 37,614.87	\$ 19,807.16	\$ 16,069.45	\$ 3,559.77	\$ 695.90	\$ 5,860.35	\$ 272,556.00
Over/Under	\$ 2,162.13	\$ 2,162.13	\$ (3,290.37)	\$ (6,939.49)	\$ (6,206.69)	\$ 1,422.20	\$ (2,137.57)	\$ 5,860.35	\$ -	\$ -

	1st Draw 1/1/19-3/31/20	2nd Draw 4/1/20-5/12/20	3rd Draw 5/13/20-8/31/20	4th Draw 9/1/20-12/31/20	5th Draw 1/1/21-3/31/21	6th Draw 4/1/21-6/30/21	7th Draw 7/1/21-8/31/21	8th Draw 9/1/21-9/30/21	Contingency 10/1/21-10/31/21
ORIGINAL LOAN BALANCE	\$ 272,556.00	\$ 139,916.00	\$ 119,825.41	\$ 86,897.87	\$ 54,932.12	\$ 32,392.12	\$ 8,693.82	\$ 8,693.82	\$ (0.00)
TOTAL DRAWS	\$ 132,640.00	\$ 20,090.59	\$ 32,927.54	\$ 31,965.75	\$ 22,540.00	\$ 23,698.30	\$ -	\$ 8,693.82	\$ -
LOAN BALANCE REMAINING	\$ 139,916.00	\$ 119,825.41	\$ 86,897.87	\$ 54,932.12	\$ 32,392.12	\$ 8,693.82	\$ 8,693.82	\$ (0.00)	\$ (0.00)

REMAINING CUSTODIAL FUND BALANCE

At the conclusion of the build, any remaining **fund balance** per family participant should be returned to USDA RD and is applied as a reduction to the family's loan principal.

- **The grantee shall also provide each family with the complete record of the build,** including, copies of all invoices, payments, and lien releases, warranties, etc. (electronic distribution recommended, e.g., thumb drive) for reference.
- Note: Although the participants in the Self-Help program are owner/builders, the grantee may be required to prepare **1099's** for any contractors who are paid by the grantee, on the owner/builder's behalf, more than \$600 per year for their work on the Self-Help homes. Contact your tax advisor or local Internal Revenue Service Center for guidance.

EXAMPLE OF CUSTODIAL DRAWS IN A BUILD PERIOD: (FREQUENCY VARIES; DETERMINED BY USDA RD & THE GRANTEE)

Below is an example of Custodial Style Bill Paying and drawing 502 funds with projected future funds. Again, timelines will vary by grantee/RD agreement. And a reminder too, that thoughtful care in managing the draw frequency and timelines must be taken. As custodian you will want to allow for timely access to needed construction funds but also avoid serious risk management issues and compounded interest by drawing too large of an amount of funds. This example shows four or five draws. If drawing monthly, the same methodology would apply, just more frequently.

- **Initial draw:** for land, closing cost, usually at escrow, etc., and projected start up building materials; some invoices would be included in the closing (e.g., land), the title record should be itemized in the recordkeeping.
- **Second draw:** Invoices for initial draw to back-up projected needs and the draw request including any invoices received already but not included in the initial draw, plus projected funding needs in the short-term.
- **Third draw:** Invoices for the second draw to back-up projected needs and draw request including any invoices received already but not included in the second draw, plus projected funding needs.

- **Fourth draw:** Invoices for third draw to back-up projected needs and draw request including any invoices received already but not included in the third draw, plus projected funding needs.
- **502 Closeout:** All remaining invoices to back-up draw number 4. The combination of all five of these reports (total of all the invoices) should equal the total construction cost.
- The grantee will pay bills as normal in-between and keep the invoices and back up handy to submit with the subsequent draw request.

FAQ'S

Who enters into (signs) contracts with the builders?

- The individual borrower/family builders should enter into contract with the construction vendors (each homeowner/builder should sign the professional construction agreements, e.g., plumbing/electrical), not the grantee. This helps to ensure clarity around warranty of work for each homeowner, and financial obligation of owner/borrower to contractor vs. grantee to contractor.

How does RD monitor the progress of the build group?

- RD staff will commonly visit the construction site in both the initial groundwork and final inspection periods. Pictures of construction progress and code inspection reports, when applicable, should also be presented with draw requests to provide a record of build progress throughout. RD and the grantee will negotiate terms of the construction progress record. RD will also review the Equivalent Units (EU's), which are a theoretical comparison unit for construction progress. The goal is for relatively close alignment to build progress and construction expenditures. See [1944-I](#) **§1944.403 Definitions Equivalent units** for more information.

Is there a Construction/Production Phase necessary to substantiate the draw schedule?

- No, there is not a standard production schedule that is aligned with construction draw requests, however, in the coversheet of the draw request, the grantee should explain circumstances (e.g., cabinets are more than four months out for delivery, so they are being ordered at this time to maintain the build schedule; appliances are being ordered at this time for a savings opportunity, etc.).