



GUIDE TO ACCOUNTING FOR INDIVIDUAL BORROWER 502 LOAN ACCOUNTS

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

A Guide for Grantees of the USDA Section 523 Self-Help Housing Program

Developed jointly by the Self-Help Housing Technical and Management Assistance (T & MA) Contractors:

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Refer to the Introduction Chapter of this guide to identify the appropriate T & MA Contractor to contact for your area. After receipt of a consent and conditions letter you may copy and distribute the manual in accordance with such terms and conditions as set and approved by the T & MA Contractors.

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INTRODUCTION

The Self-Help Program

Self-Help Housing is just as it sounds: Participants working together to build their own homes. This cooperative effort is a direct application of the church and barn raising techniques of the Amish and Mennonites. The participants supply the necessary labor while qualifying for mortgage financing to purchase land, materials, and subcontract work on very technical items. A private nonprofit corporation, public body, or rural town can obtain a grant from Rural Development to hire skilled staff, rent office facilities, pay for mileage, and purchase tools. This staff then works with the participants by providing the assistance and training necessary to fulfill the goals of the self-help housing program. The specifics of the program are described below.

With the assistance of the skilled staff, an association of generally 4 to 10 households is formed. (Once the grant is completed, at least 40% of the total participants served must have been very low income, 50% or less of the county median income.) They select lots, house plans, and apply for individual mortgage loans. While participants await loan approval, the group studies the responsibilities of homeownership, construction techniques, tool usage, safety, homeowner's insurance, taxes, home maintenance and money management. This time is known as the pre-construction stage.

Once the loans are approved, the group begins to build under the guidance of a skilled construction supervisor. The participants must complete a minimum of 65% of the construction labor tasks, until the group of homes is completed; usually the more technical work is

subcontracted out. The construction stage lasts from 6 to 12 months, depending on the size of the group. Participants work during their spare time (evenings, weekends, and days off) so as not to interfere with the regular household employment. Rural Development loans feature interest rates ranging from 1% to the market rate, depending on the household's adjusted annual income. The repayment period is 33 or 38 years and no down payment is required.

Rural Development

Rural Development is an agency of the United States Department of Agriculture. It was originally a credit agency for lower income farmers who could not qualify for loans elsewhere. Since the 1960's rural non-farm households have been eligible for mortgage credit. Rural Development's function as a lender is significant because private credit institutions in rural areas are relatively few in number, smaller, and often impose more rigid terms, which can be a barrier to homeownership.

The Rural Development mission is to help rural Americans improve the quality of their lives. Rural Development helps rural communities meet their basic needs by:

- Building water and wastewater systems,
- Financing decent, affordable housing,
- Supporting electric power and rural businesses, including cooperatives, and
- Supporting community development with information and technical assistance.

Rural Development has been providing the funds for the self-help housing program since the late 1960's. They provide technical assistance grants to eligible entities to start and implement the program and they thoroughly review the pre-application and final application before a grant is awarded. When a grant is awarded, Rural Development is saying that there is a need for self-help housing in this area; this agency is suited to administer a self-help housing

program; the proposed plan, budget and schedule are feasible; house plans meet local, state and Rural Development building codes; adequate building sites are available; the project ingredients are in place; and Rural Development is ready to provide the financial resources necessary to make the project work. There is no charge to participating groups. Grant funds provided to sponsors by Rural Development do not have to be repaid. It is an investment Rural Development is willing to make in order to see self-help housing work.

Rural Development will continue to monitor and provide oversight in the areas of construction and administration, through quarterly meetings, construction inspections, and participant accounts throughout the term of the program.

In many cases Rural Development provides another important ingredient to the self-help program, construction/permanent financing. They are independent of private or conventional lending institutions; the financing is directly between Rural Development and the borrower. While labor and construction are group efforts, each applicant must qualify and obtain a loan directly from Rural Development.

Rural Development Offices

Rural Development usually operates from four levels: national, state, area and local. The National Rural Housing Service Administrator and Associate Administrator in the National Office and the State Directors are politically appointed – all others are federal civil service employees.

Rural Housing Service National Office

The Rural Housing Service National Office is responsible for developing policy and interacts with Congress for legislation, development and program funding. The National Office also obligates and monitors all Section 523 grants. The program staff at the national level maintains reports and statistics on operating self-help organizations and projected needs for funding.

Rural Development State Office

The State Office has the approval authority over the smaller Section 523 grant applications. Section 502 loans are allocated on a state-by-state basis and the State Office allocates the 502 money based on a State formula. There are additional staff members who are key to the operation of a self-help program located in many State Offices:

Rural Development State Director

Rural Housing Program Director

Rural Development State Architect

Rural Development Appraiser

Rural Development Housing Specialist

Rural Development Area Office

The Rural Development Manager is responsible for the Section 523 grant. It is his or her responsibility to ensure that the grant is operated effectively and in accordance to regulations. The Rural Development Manager will evaluate the Section 523 self-help agencies on a quarterly basis and review grant applications

for new and on-going programs. In addition, Rural Development Construction Analysts are usually available through this office.

Rural Development Local Office

Within this office, the Community Development Manager is typically responsible for making the Section 502 mortgages to participating applicants of each group.

He or she will be responsible for monitoring the 502 loans and will also be the co-signor on the participant checking accounts. Usually, this office does construction inspections.

The Rural Development Section 502 Rural Housing Loan

Many applicants that participate in the self-help housing program use Rural Development's Section 502 loans to finance their homes. Section 502 loans are only available to families living in rural areas. "Rural" is defined as towns with populations of 10,000 or fewer, and designated cities with populations between 10,000 and 20,000 in counties that are not associated with Standard Metropolitan Statistical Areas (SMSA) where a serious lack of mortgage credit exists.

In order to qualify for a Section 502 loan, prospective self-help applicants must meet Rural Development income eligibility requirements as low-income or very low-income. They must be credit-worthy, have repayment ability for the loan requested, and be unable to secure credit from other sources. The low-income measure is 80% or less of the county median income, based on family size. Very low-income is defined as 50% or less of the county median income, based on family size. These income standards, established by HUD and adopted by Rural Development, are subject to local variation and periodic change. Current information on

income standards and eligibility requirements for Section 502 loans is available at Rural Development local offices.

The repayment period for the Section 502 loan is either 33 or 38 years, and the interest rate is between 1% and the current market rate. The actual rate of interest the borrower pays depends on the borrower's income, as does the loan term. If a borrower is eligible to pay less interest than the market rate, the borrower then receives a subsidy called "payment assistance". The amount of payment assistance a borrower receives is determined by the loan amount, loan period, and the household income. The assistance makes up the difference between the full loan rate and the rate the participant pays.

Section 502 funds are advanced from the Rural Development finance office in St. Louis and disbursed by the local offices based on regulatory guidelines. TA grantees prepare the draw-downs and checks for each participant's account as needed to purchase materials for different phases of construction. Note that the participant's loan payments are deferred during construction.

When all the money is withdrawn from a participant's account, Rural Development's finance office sends payment books to the participant. The participant's first loan payment is due within thirty days of termination of deferred payments. Payments then go directly to Rural Development's Centralized Servicing Center (CSC) in St. Louis.

The 523 Mutual Self-Help Housing Technical Assistance Grant

In order to enable organizations to operate a mutual self-help housing program, Rural Development provides grant funds to operate and oversee mutual self-help housing programs. Each TA grant is usually for a period of up to two years, and is available to public and private nonprofit organizations and units of state or local government. The amount of grant funds an organization can receive is based upon how many houses they build in a grant period. An organization can receive 15% of the average cost of a new home financed under the 502 program in their area, for every home they are planning to build.

Activities that are allowable uses of Section 523 Technical Assistance grant funds include:

- Recruiting eligible households to participate in the self-help program;
- Hold training meetings with participants on the self-help process and

homeownership topics such as mortgages, insurances, taxes, and maintenance;

- Assisting participants obtain and develop building sites; obtaining or creating Rural Development-approved house plans and helping participants select theirs;
- Helping participants bid and select building supplies and subcontractors; train participants in construction techniques and provide construction supervision;
- Supervise participant Section 502 loan accounting, including;
 - Totaling invoices and itemizing payments to suppliers and subcontractors;
 - Maintaining records of deposits and withdrawals;
 - Preparing checks (accompanied with invoices and statements).

Disallowed activities using Section 523 Technical Assistance grant funds include:

- The use of any TA funds to pay staff to provide labor on the houses;
- Purchasing any real estate or building materials for participating families;
- Paying any debts, expenses or costs which should be the responsibility of the participating families;
- Any lobbying activities as prohibited in OMB Circular A-122.

The T&MA Contractors

In 1979 the appropriations language was changed to authorize the use of Section 523 grant funds to contract for technical assistance to self-help grantees. There were initially six Technical and Management Assistance (T&MA) Contractors; currently there are four.

Rural Development contracts with these groups to assist operating and potential self-help housing grantees across the country. This assistance comes in the form of staff and board training, grant management, development of applications, 502 loan program, training,

newsletters and conferences, among other services. These services are provided at no cost to the grantee.

The four contractors are:

- Florida Non-Profit Housing – covering Region I, the Southeast, including the states of AL, FL, GA, MS, NC, SC, TN, Puerto Rico and the Virgin Islands.
- Little Dixie Community Action Agency, Inc. – covering Region II, the South Central US, including the states of AR, KS, LA, MO, ND, NE, NM, OK, SD, TX, WY.
- NCALL Research, Inc. – covering Region III, the Northeast and Midwest, including the states of CT, DE, IA, IL, IN, KY, MA, MD, ME, MI, MN, NH, NJ, NY, OH, PA, RI, VA, VT, WI, WV.
- Rural Community Assistance Corporation (RCAC) – covering Region IV, the Western US, including the states of AK, AZ, CA, CO, HI, ID, MT, NV, OR, UT, WA.

ADDITIONAL TRAINING MATERIALS

The T&MA Contractors have produced a variety of other training materials for the purpose of assisting grantees and training grantee staff. The following is a list of the available guides. Please contact your T&MA Contractor for a copy or for more information.

Board of Directors

Boards of Directors play a critical role in the success of any non-profit organization.

With this in mind, this guide was designed for use by board members of any housing agency.

This guide is intended primarily as a reference and not to dictate that, “this is the only way”.

However, it is an informational resource that may be used as a training tool and can provide new insights and a clearer understanding of nonprofit organizations, board meetings, operations, agency planning, administration of agency personnel, teamwork, orientation for new board members, federal accounting requirements, and self-help agency activities.

Project Director’s Guide

It is the responsibility of the Project Director or Executive Director to administer a successful Mutual Self-Help Housing Program. This guide should be used as an important resource to assist with that goal. It can also be used as a training manual when new staff is hired.

The Project Director’s Guide takes a general look at the Self-Help Program as well as providing information on required reports, program criteria, grant and financial management, personnel and fair housing.

Guide to Basic Bookkeeping for Not-for-Profit Organizations

Understanding the basic bookkeeping procedures is just as vital to developing a not-for-profit organization as it is for a for-profit organization. Therefore, mastering the concepts of double entry bookkeeping is of much importance. Most non-profits are probably using computerized accounting software for their bookkeeping needs; however, it is still important to understand the concepts of double-entry bookkeeping. This guide will present the basic

material for a not-for-profit organization's needs. With improved bookkeeping skills each organization will gain a better command of available resources and help in planning a more profitable future.

Financial Management for Federally-Funded Organizations

The purpose of this Financial Management Guide is to aid new and operating grantees with the development of financial management systems and policies that are compatible with the fiscal responsibilities set forth by the funding agency (Rural Development) and the Office of Management and Budget (OMB). While self-help housing programs that have been operating for many years may have sophisticated financial systems and policies, others are lacking written, established financial procedures that assure proper internal controls.

This Financial Management Guide offers grantees sample information, guides, and checklists for virtually all fiscal aspects of self-help housing including: Section 523 grant accounting, Section 502 participant loan accounting, establishing accounting systems, program and payroll expenditures, tax requirements, personnel records, federal accounting requirements, and audit preparation.

While this guide has been developed specifically for self-help housing grantees, the principles and information provided are applicable to any nonprofit housing development corporation utilizing federal financing or administrative funding.

Group Coordinator Guide

The job duties and responsibilities of a Group Coordinator are crucial to the success of the self-help program. The Group Coordinator is the person that is responsible for locating interested participants, screening them and packaging their 502 loan application, preparing them

for the construction phase and homeownership, and helping to track their progress during construction. If one of these duties is not fulfilled, the entire program is put in jeopardy.

Because the Group Coordinator often wears so many hats in a self-help agency, there are other guides that the Group Coordinator is going to need to read in addition to this one. The 502 Loan Processing Guide is crucial to the success of qualifying and processing applicants, the Preconstruction Meetings Guide will help guide the Group Coordinator through these meetings, and the SHARES Manual will instruct the Group Coordinator on the task of entering information into the SHARES database.

This guide will help the Group Coordinator in the areas of recruitment, communication, forming a group, group management, motivation, and money management.

502 Loan Processing Guide

(This guide is currently under development.)

While the labor and construction is a group effort, each participant must qualify and obtain a loan individually from Rural Development. In order to qualify, a household must fall within the income guidelines set by Rural Development, must have demonstrated repayment ability, must have a good credit rating, and should have a low debt load. Because the 502 self-help loan process can be complicated for the individual, the technical assistance staff will pre-screen participants for program eligibility and prepare the application packages for Rural Development.

The 502 Loan Processing Guide will help to train the Group Coordinator or appropriate staff person in packaging these loans. The loan terms, application forms, credit reports, and the additional documentation required are all covered.

Preconstruction Meetings Guide

(This guide is currently under development.)

Each self-help grantee is responsible for organizing participants into groups, which remain together from loan processing through construction. The organization of participants into groups reinforces the “mutual” aspect of the self-help program because participants within a group are expected to work on each other’s house until all houses in the group are completed. In

addition to organizing participants into groups, self-help programs are responsible for explaining the self-help concept and methodology to participants, and for educating participants about their responsibilities as self-help participants, 502 loan borrowers, and homeowners. This is achieved through a series of “pre-construction meetings”.

Group meetings provide self-help grantees, Rural Development, and the self-help participants with an opportunity to develop bonds which can contribute to the timely construction of houses – of which all can be proud – and which can place participants on a sound footing for assuming their homeownership responsibilities.

The information and materials contained in this guide are presented as informational resources, ready to use formats, or samples to be modified to suite each grantee’s circumstances.

Construction Supervisor Guide

The Construction Supervisor Guide will discuss the roles and responsibilities of the construction

supervisor as it relates to Self-Help Housing. This guide will cover several aspects of the construction supervisor's job; from construction specifications, house plans, schedules, bill paying procedures, to group motivation. Insight will be provided on how the self-help program operates and what is expected from the construction supervisor. This guide should not be the only source of training, but can be used as an introduction. Further exposure should be sought at conferences and networking with peers in the field.

SHARES Help Manual

SHARES stands for the Self-Help Automated Reporting and Evaluation System. It is an internet-ready application designed to manage, track, evaluate, and report on the status of the self-help program, as well as share this information with all parties that provide assistance to this program.

The SHARES Help Manual describes all aspects of the SHARES program, such as, getting started, the available screens, entering information, and printing reports.

Introduction to this Guide

In addition to establishing and maintaining an accounting system for the Section 523 grant funds, the Self-Help Housing grantee is responsible for keeping an accurate account of the disbursements of funds from the individual self-help families' Section 502 loan accounts. When a self-help participant is approved for a Rural Development Section 502 loan and the loan is closed, a supervisory bank account is established for the loan. The borrower and Rural Development are co-signatories on checks and have to approve any disbursements made for building materials, contracted services, etc., from the account. The accounting for the disbursements from the Section 502 loans is a significant responsibility that each self-help grantee should take very seriously. FmHA Instruction 1944-I indicates that technical assistance provided by the grantee to the families should include "providing financial supervision to individual families with Section 502 loans, which will minimize the time and effort required by Rural Development in processing borrower expenditures for materials and contract services." Since the loans are made through Rural Development, every effort should be made to assist the local office. Rural Development requires that a sampling of the loan accounts be audited with the audit of the 523 TA grant funds.

Establishing 502 Record Keeping Procedures

In order to fulfill this accounting responsibility, the grantees must establish a record keeping system with clear procedures for handling the purchase of construction supplies, invoices from subcontractors and vendors, and accounting for expenditures from borrower loan funds. The following information provides guidelines for self-help grantees to use in designing the procedures necessary for a minimum standard of control and a system of checks and balances to protect the participants and the grantee.

The first guideline is to distribute responsibilities and tasks in a *clear* manner so that the staff understands the procedures to follow and who has what responsibility. They must all understand the system, the distribution of responsibilities, and their duties. Each staff member

should also understand the responsibilities and terminology of other staff members. For instance, the bookkeeper needs to become familiar with construction terms and what materials go into building a house. Continued monitoring and enforcement of the tasks are absolutely necessary to the success of the program.

The following are a few suggestions for assignment of responsibilities regarding the disbursement and accounting for the individual borrower's Section 502 loan funds.

TASK	STAFF PERSON
Purchase materials	Construction Manager or Construction Supervisor
Reconcile delivery slips with invoices	Executive Director, Program Manager or Bookkeeper
Process invoices for payment	Bookkeeper
Take checks to be signed by Borrower and Rural Development	Program Manager, Construction Supervisor, or Group Coordinator
Preparation of Statement of Deposits & Withdrawals/Loan Activity Reports	Bookkeeper

A second guideline is to establish financial files for each self-help housing borrower. These files should contain any financial information regarding the borrower and their loan. The file or a series of files should include:

1. The borrower's bank account information.
2. The house cost estimate.
3. The purchase order system for their house.
4. Copies of purchase orders before reconciliation with invoices.
5. Copies of paid invoices and the corresponding check. (Copies of purchase order(s) and delivery slip(s) should be attached.)
6. Borrower's Statement of Deposits & Withdrawals and/or similar reports.
7. Contracts with subcontractors.
8. Any related documentation for expenditures, i.e. insurance forms, warranties, etc.

9. Reconciled bank statements.

Thirdly, the grantee should establish a bookkeeping system to track each individual borrower's loan activity. This can be done manually or by using an automated accounting system. (See Attachment I, "Using Quickbooks Pro 2001 To Track Construction Loan Activity in SBA's")

Use the cost estimate to determine the lowest level of detail you will need for your reports when you create your chart of accounts. (See Attachment II, Sample Chart of Accounts.)

Internal Controls

While there are many important ingredients in an accounting system, financial excellence demands proper internal controls. Internal controls refers to the built-in system of accounting procedures, checks and balances, division of tasks, and safeguards that guarantees the fiscal integrity of the organization to the participating families and to the funding source, USDA Rural Development. Internal controls will diminish the possibility of willful fraud, abuse, and errors, while offering management, the participating families, and Rural Development the most up-to-date and complete loan information.

In designing an accounting system for the borrower's loans it is important to consider all elements of internal controls:

1. Accounting Procedures

Procedures must be developed to match the families' and organization's needs. All records must be kept current and reports must accurately reflect the families' bank and loan balances.

2. Checks and Balances

It is important to build certain checks and balances into the borrower accounting system. A simple example is the requirement of having both the borrower and Rural Development sign the checks. The families can play an important part in checks and balances by reviewing and approving payments.

3. Division of Tasks

In designing the accounting system it is important to pay attention to the division of tasks. The goal is to assure that one person is not responsible for all of the steps in the

accounting process. A good example of division of tasks is that both Rural Development and the grantee reconcile the families' checking accounts.

4. Safeguards

An accounting system can have many different types of safeguards. One is the maintenance of adequate documentation for all expenditures. Another example is to assure that all bank accounts are reconciled promptly. The families' checkbooks should be kept in the grantee's office in a locked cabinet or safe.

Good fiscal policies established for internal control will benefit both the participating families and the responsible self-help grantee.

Drawdown Procedures for Rural Development Section 502 Funds

When a borrower's loan is closed, a supervisory bank account is established with Rural Development and the borrowers as co-signatories. In order to have funds available in the account to pay for material orders, an amount must be requested from Rural Development and deposited in the bank account. Individual Rural Development local offices may have different procedures but most allow for at least several draws during the construction period. The entire amount of the loan can be drawn down prior to completion of the home. Once construction is completed, the grantee will notify Rural Development to convert the borrower construction loan to a permanent loan. After the conversion, the borrower's first monthly payment will be due within 30 days.

The supervised bank account system allows for monies to be available to purchase the site and materials with no mortgage payments due until the construction is completed. Many local offices will initiate a drawdown based on a call by the Self-Help Housing Grantee or a drawdown request form. Whenever the drawdowns are to be made from a borrower's loan account, significant planning is required by the grantee to determine the amount to be requested in order to minimize the interest expense incurred by the borrower.

Cost Estimating

A key to the accounting for the individual borrower loan funds is an accurate cost

estimate for the self-help house. An accurate cost estimate is the basis for a purchase order system, which will act as a control in ordering the materials and as documentation for the disbursement of funds from the borrower bank account.

Prior to the obligation of each loan, the program director and/or construction supervisor prepares a cost estimate by category of expense. A copy of the appropriate cost estimate is kept in each borrower's file.

The bookkeeper should use the cost estimate in the preparation of purchase orders and in preparing the Statement of Deposit and Withdrawals (USDA Form RD 402-2) or a similar budget comparison report. These reports will provide the families and the grantee with the ongoing information needed to compare budgeted line items with actual expenditures. This will hopefully prevent the need for supplemental loans.

In order to avoid cost overruns and costly delays, and to minimize the potential for long, complicated lawsuits, each borrower should sign a construction contract with each subcontractor. This will protect the interest of both parties.

A clear, concise construction contract is essential and Form FmHA 1924-6, "Construction Contract" and Form RD 1924-7 "Contract Change Order", if needed, should be used. (See Appendix III.) However, other contract documents may be acceptable, with prior approval from Rural Development. No matter what type of contract document is used, it should be as specific as possible. Form FmHA 1924-6, when properly executed, includes the following:

1. Description of the materials and work to be performed.
2. Amount to be paid for all materials and labor to be furnished.
3. Dates when the contractor will start and complete the work.
4. How payments are to be made.
5. General conditions such as proper approval for changes in work, inspection of work, liquidated damages for contractor's refusal to complete work, contractor's obligation to discharge liens, and assurance of contractor's warranty.

Additionally, it is beneficial for the grantee to execute a "Construction Agreement" with subcontractors, which clarifies the grantee's role as the representative of the families. It also lists the grantee's requirements with which the contractor must comply and specifies any conditions under which payment may be withheld or another contractor substituted.

Such contracts are essential for the management of the families' loan expenditures. The construction contract will serve as the basis for payment to the subcontractor.

Purchase Order System

In planning for purchasing materials for the self-help houses, it is strongly recommended that Self-Help grantees establish a purchase order system for each given house plan. A master purchase order system can be developed and adapted for each house plan. The purchase order system helps control the ordering of supplies so that unnecessary buying and duplication of materials can be avoided. The system also helps in processing payments to suppliers. See Attachment IV for a flowchart of the purchase order system and Attachment V for a sample borrower purchase order form.

After a particular house design has been built, the purchasing agent or construction supervisor should update the purchase order information based on the actual amount of materials used. Therefore, the cost estimate would only need to be revised based on current prices for each Section 502 loan application submitted with that house plan.

Purchasing House Materials

In actual usage, the construction supervisor retrieves the appropriate purchase order(s) for each borrower's house on a weekly basis according to the stage of construction. The construction supervisor then indicates any changes in quantities to be ordered, or deletions on the purchase order form. These should be minor. The staff person in charge of purchasing materials reviews the purchase order. Changes as indicated by the construction supervisor need to be included as well as updated prices from the supplier. A note of any changes should be made and at a later date, corrections made to the borrower's purchase order system and cost estimate. The actual purchase orders should include the following items:

1. The name of supplier.
2. The date the materials are ordered.
3. The borrower's name for whom the purchase is being made.
4. The name of the town and subdivision, and lot number where the house is located.
5. The invoice number of the completed order from the supplier.

6. The name of the staff person making the order.
7. The name of the construction supervisor of the group.
8. From the house cost estimate, the cost and the cost category or its number for the item
that is being purchased. (This type of coding system will help the bookkeeper post disbursements to the correct category.)
9. The description of the item ordered.
10. The quantity of the item being ordered.
11. The unit price as quoted by the supplier at the time of the order. Indicate if it is a special price or sale item.
12. The total price of the items ordered. (Multiply the quantity by the unit price.)

After the purchase order is completed, place a copy of the purchase order in the borrower's financial file to later reconcile with the delivery slip and invoice. Then, the order is phoned in or taken to the supplier. The supplier should be required to set up individual accounts and maintain separate billing records for each borrower. The supplier must also be asked to record the purchase order number on each invoice for the materials sold to each borrower. This will make reconciling the invoices, purchase orders, and delivery slips much easier later on. Additionally, families must not be allowed to purchase the materials themselves, because this bypasses the system and can cause duplications or errors.

When the materials are delivered, the construction supervisor should verify the condition and quantity of the items with the delivery slip and sign the slip. If there are any discrepancies, they should be noted on the delivery slip. The supplier's delivery person should also sign the slip. The slip should be taken to the main office and filed with the borrower's purchase orders. If all the materials were not delivered, a note of the shortage should be made. The materials should be re-ordered from another supplier or delivered later by the same supplier.

Subcontracted Work

An important part of estimating the cost of a self-help house is determining the costs of subcontracted work such as plumbing and electrical. Virtually all self-help housing programs subcontract certain jobs in the construction of the houses. The grantees should obtain bids from

as many qualified subcontractors as feasible to assure that the best materials and labor are secured for the best price.

In addition to obtaining bids, grantees should interview prospective subcontractors to determine their quality of performance and workmanship. Take a look at their work and ask their clients whether they were pleased with the work and the price. Furthermore, ask others in the community about the integrity, professional competence, and timeliness of the subcontractors under consideration.

Reconciliation of Invoices

When invoices are received from the supplier, they should be reconciled with the purchase order(s) and delivery slip(s). First, separate the invoices by borrower name and match the purchase order and delivery slip with the invoice. If the invoice is for supplies for more than one borrower, make copies of the invoice and file one in each appropriate borrower's file. Each purchase order should have the corresponding invoice number on it. Conversely, the invoice should have the purchase order number indicated on it. Review them to be sure that:

1. Quantity billed agrees with quantity ordered and delivered.
2. Unit prices on the invoice agree with the quoted prices on the purchase order.

If you are billed for materials not ordered or delivered, or if prices are incorrect, the supplier must be notified to issue a credit memo to credit the invoice or to issue a corrected invoice. The employee processing the invoices should check:

1. The calculations (quantity x item prices = total) on the invoices.
2. Indicate on each invoice the appropriate cost category (from cost estimate) as shown on the purchase order.
3. If a borrower is paying several invoices from one supplier, add the invoice totals and staple the adding machine tape to the invoices.

Invoices from subcontractors should be reconciled with the construction contract. Before such bills are paid, the construction supervisor should verify that the work billed for was completed. Additional billings or invoices should be well documented.

The bookkeeper should then prepare the checks for payment of each borrower's invoices, using checks taken out of each borrower's checkbook. ***No invoices for supplies should be paid***

that do not have both the purchase order and the delivery slip attached. These document the purchase. Other invoices and requests for payments e.g. utility bills and dumpsters must be well documented to validate the purchase. Then the bookkeeper should mark or stamp "**PAID**" on each invoice and indicate the date paid and the check number. The check should indicate the invoice number or specify what the check is for. The invoices and checks should then be reviewed by another person, such as the director, and initialed to signify that they are ready for presentation to the borrower and Rural Development for signatures.

Statement of Deposits and Withdrawals (USDA Form RD 402-2)

As checks are prepared by the bookkeeper for payment of materials or related items, each borrower's checks must be recorded in their individual Statement of Deposits and Withdrawals (USDA Form RD 402-2) or similar report in order to keep a running account of the amount of money available in the borrower's supervised bank account. This report is a record of all the disbursements made from the borrower's loan fund and shows what type of materials have been bought as well as a current loan balance and a current checking account balance. The balances remaining in each cost category from the cost estimate are also shown. A sample partially completed Statement of Deposits and Withdrawals is shown in Attachment VI. Many grantees have elected to maintain a similar reporting system on their computer. A sample spreadsheet can be found in Appendix XV. Many USDA RD offices will accept a computer-generated check register and a budget comparison report by borrower in lieu of the Statement of Deposits and Withdrawals or facsimile.

The 402-2 report is made up of horizontal lines for the date, payee, check number, loan balance, bank balance. Multiple columns on the right are used for cost categories according to the cost estimate. (For example, all checks with expenses relating to foundation will be deducted from the category total for foundation.) The Statement of Deposits and Withdrawals is completed as follows:

1. Fill out the top of the form as indicated using cost categories shown on your house cost estimate.
2. Under the column entitled "Loan Balance," enter the total of the loan provided by Rural Development.

3. Under the column entitled "Bank Balance," enter the first deposit of drawdown monies from Rural Development.
4. The columns that follow correspond to the cost categories on the house cost estimate. Enter the name of the category, i.e. Foundation, and the amounts budgeted for each category. Check your entries by adding the categories' entries; the total should equal the loan balance entry.
5. Using the settlement statement prepared by the title company enter all expenses paid at closing including site costs and fees.
6. As checks are prepared, they should be entered into the borrower's Statement of Deposits and Withdrawals. The date, payee, and check number should be entered. The check amount should then be filled in, and then subtracted from the loan balance, the bank account balance, and the correct cost category column(s). In order to record disbursements under the correct cost category column(s), the bookkeeper should refer to the applicable purchase order(s) and invoice(s), which should indicate the cost category to be charged. At times, a check will cover disbursements from a number of categories and the check's amount must be divided accordingly among the categories.
7. Upon completion of the entries, two reviews should be made to insure that the entries are correct:
 - a) The loan balance should equal the sum of the balances for the cost categories.
 - b) The bank account balance should be equal to the borrower's checkbook balance.

If either does not match, then an incorrect entry has been made.

8. When the supervised bank account balance becomes low, it is time to request a drawdown from Rural Development. Be sure that the total of the drawdowns requested does not equal the loan amount until the house is finished. A drawdown should be entered in the borrower's Statement of Deposits and Withdrawals as a receipt/increase to the supervised bank account balance.
9. Record any non-502 loan funds deposited into the families' bank account as a

receipt/increase to the bank balance.

10. It is suggested that you review each borrower's loan account balance with Rural Development's figures. This can be done when the families' checks are taken to Rural Development for signatures.
11. When a page of the report is completed, the balances are carried forward to the next page.

Signing of Checks and Payments to Suppliers

Part of the grantee's responsibility in providing financial supervision of the participating families' individual mortgage loans is to establish a smooth and efficient routine for obtaining borrower and Rural Development co-signatures and paying suppliers. To fulfill their responsibility, there are certain minimum procedures that should be followed:

1. One staff member should be assigned the responsibility of presenting the checks to the families for signatures. Meetings with families in which checks will be signed should be scheduled on a regular basis. Checks can be signed at the construction sites or the families can be required to come into the office.
2. The original invoices must accompany the checks when they are delivered to families for signatures so that families can review them before signing. The families should indicate their approval for payment on each invoice or on the request for payment voucher (See Appendix XIV), and then sign the check for each supplier. ***Under no circumstances should either the families or Rural Development sign blank checks.***
3. A copy of the invoice and a copy of the check should be placed in the borrower's file.
4. The checks, original invoices and check copies are then presented to the Rural Development local office for review and counter-signature. The checks and invoices can be presented to Rural Development in person. This should be done according to a pre-determined schedule so that Rural Development staff will know when to expect checks for their review and signature, and can schedule their time to accommodate the work.

5. The Rural Development local office may keep the original copies of the invoices and return the signed checks to the grantee for mailing to the proper supplier. If Rural Development does not keep the originals, the grantee should file them.
6. A supplier payment form should accompany the checks when forwarded to suppliers which lists the borrower name, invoice number, amount and check number for each borrower. One letter may include payments from several families and the listing will help the supplier to credit the proper account. Payments should be scheduled in order to take advantage of discounts.
7. Prior to payment of suppliers or subcontractors, a Release by Claimants should be obtained from the vendor. This provides protection for the grantee and the families from liens against the house or the property. See Attachments VII & VIII for USDA Forms RD 1924-9 and -10 .

Following these simple procedures will eliminate grantee staff time spent sporadically arranging for families to sign checks several times during the month, and will allow ample time for the families to review invoices. They will minimize the time and effort required by Rural Development to counter-sign checks. The supplier payment form will help the supplier give proper credit to borrower accounts and will clarify problems that could arise concerning unpaid invoices.

Reconciliation of Bank Statements

Reconciliation of the families' bank statements must be done, preferably by the Self-Help TA Grantee. In most situations, the grantee maintains the families' checkbooks and prepares the checks. Therefore, the bank statements should come to the grantee and be reconciled by a self-help staff person. Each statement's balance should then be checked against the supervised bank account balance on the borrower's Statement of Deposits and Withdrawals and in any automated accounting system. The local office of Rural Development may require that they receive a copy of the bank statements to reconcile themselves or may require that they alone do the reconciliation. If Rural Development feels they must do the reconciliation, then it is prudent for the self-help grantee to receive copies of the bank statements and also reconcile them. Also, by reconciling the borrower bank statements, the grantee is fulfilling its role of technical

assistance provider according to the 1944-I, which indicates the grantee should provide "financial supervision to individual families with Section 502 loans." Once the bank statement is reconciled, it should be placed in the borrower's financial file.

SHARES

SHARES stands for the Self-Help Automated Reporting and Evaluation System. It is an internet-ready application designed to manage, track, evaluate, and report on the status of the self-help program. It will also share this information with all parties that provide assistance to this program. SHARES has two distinct components. One is an informational section that includes links to other web sites that may be helpful to an organization during the time the grant is active. The second component is an automated database.

The database is an application that allows borrower and grant information to be entered and reports to be generated and printed. Data will need to be entered on a regular basis since Rural Development personnel at all levels and the T & MA Contractor will be reviewing this data for monitoring, reporting, and statistical information purposes. On a monthly basis your T & MA Contractor will be using the information in the database to print a monthly report. There is a considerable amount of information that will need to be entered into this system by the person designated by the Project Director, usually the Group Coordinator. The information will include detailed borrower and lot information, construction progress and grant status. Although this will take time, the reports that this system is able to generate are extremely beneficial, both to the organization, the T & MA Contractors, Rural Development, and the overall program.

There is an entire manual dedicated to training for the use of this system. Request one from your T & MA Contractor if the organization has not yet received one.

Accounting Steps for Section 502 Loans

The following is a summary of the accounting steps involved in recording the borrower Section 502 loan disbursements:

1. Develop a purchase order system for each borrower and establish a format for each borrower's Statement of Deposits and Withdrawals (USDA Form RD 402-2) or similar report.

2. When it is time to order materials, the authorized staff person should sign the appropriate purchase order (P.O.). Materials are then ordered by the appropriate staff member.
3. Materials are delivered to the site, verified, and the delivery slip(s) signed and forwarded to the bookkeeper.
4. Once invoices are received, the purchase orders, delivery slips, and invoices are reconciled by the bookkeeper.
5. Checks are prepared by the bookkeeper, and reviewed with attached documentation by an authorized staff person.
6. The checks are posted by the bookkeeper to the correct borrower's account.
7. The check, accompanied by copies of the purchase order and invoice, is reviewed, approved and signed by the borrower and Rural Development.
8. The original or a copy of the invoice should be given to Rural Development and a copy of the invoice, purchase order, and check (or canceled check when received) should be placed in each borrower's file.
9. The check, accompanied by the invoice number(s) and borrower's name, is submitted by the bookkeeper to the vendor for payment.
10. The families' bank statements are reconciled by the bookkeeper.
11. Periodically, the borrower's loan balance as shown in the Statement of Deposits and Withdrawals or similar report should be checked against the sum of the balances of the cost categories, as well as with Rural Development's record of the loan balance.

General Recommendations

There are certain general recommendations that must be followed to insure a smooth and accurate accounting of the borrower Section 502 mortgage loans:

1. Materials should not be transferred from one house to another without documentation and payment. If materials are purchased for one house but used on another, the construction supervisor should prepare a transfer memo. (See Attachment IX.) The materials and the quantity being transferred are listed on the memo and the respective families sign their consent and receipt of the transfer. Then an invoice in the name of the borrower who originally received the materials is prepared and a check drawn from the borrower's account that is receiving the materials. The transfer memo and invoice document the payment. The transaction should be recorded on both families' Statement of Deposits & Withdrawals or similar reporting system.
2. Families should not be allowed to purchase materials for their houses. This can lead to abuses or duplication of materials.
3. Payments to suppliers should be scheduled in order to take advantage of discounts. This will also help employees schedule their work to meet deadlines and the Rural Development staff will know when to expect checks for their review and signature. Furthermore, the families will sign the checks on a scheduled, not sporadic, basis.
4. Suppliers should be required to set up individual accounts for each borrower in construction and to maintain separate billing records for each borrower. This will prevent confusion as to which materials belong to which house and borrower. Projects that have failed to maintain separate borrower accounts with each supplier have run into serious billing errors. It also helps the supplier to maintain control over his billing.
5. No invoice or bill should be paid unless it has a borrower's name and the purchase order number that it corresponds to.
6. Shared expenses between families should be minimized. If you have an expense shared equally by the families, such as the rental of a portable latrine and/or dumpster, the expense should be equally divided among the families, and copies of the invoice attached to each borrower's check.

7. In an individual bill-paying system, families' loan funds are never deposited into the T.A. grant bank account nor pooled in a borrower association checking in order to enable forwarding one check to the vendor. If you do, you are co-mingling funds and could cause a more in-depth and costly audit to be required of your TA grant.

Closing Summary

All Self-Help Housing grantees must establish financial management systems and policies in order to accurately account for the participating families' 502 loan funds. The systems and policies established must conform to generally acceptable accounting principles (GAAP) and meet Rural Development's requirements as outlined in 1944.411(f). (See Attachment X.)

The procedures, guides, and checklists offered in this accounting guide are recommended as minimum standards of control necessary to protect the self-help grantee and the participating families. While conditions will vary among grantees, each can adapt the principles outlined in this guide to establish, supplement, or revise their accounting system to insure that all aspects of their self-help housing operation are based upon sound fiscal practices.

Ultimately, the self-help grantee, participating families, and Rural Development will benefit from established financial controls which prevent potential fraud and abuse, and provide a framework for regular analysis of monies spent.

List of Appendices

Appendix I.	Using QuickBooks Pro 2002 to Track 502 Construction Loan Activity in Supervised Bank Accounts
Appendix II.	Sample Chart of Accounts
Appendix III.	USDA Form FMHA 1924-6 (Construction Contract) and Form RD 1924-7 (Contract Change Order)
Appendix IV.	Purchase Order System Flowchart
Appendix V.	Sample Borrower Purchase Order Form
Appendix VI.	USDA Form RD 402-2 (Statement of Deposits and Withdrawals)
Appendix VII.	USDA Form RD 1924-9 (Lien Waiver)
Appendix VIII.	USDA Form RD 1924-10 (Release by Claimants)
Appendix IX.	Property Transfer/Disposal Form
Appendix X.	USDA RD Instruction 1944-I Section 1944.411 (Conditions for Approving a Grant)
Appendix XI.	Custodial Bill-paying
Appendix XII.	Traditional Bill-paying vs. Custodial Bill-paying chart
Appendix XIII.	USDA RD Instruction 1924-A Section 1924.6(c) (Mutual self-help Method)
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Appendix XVI.	Website Addresses for USDA Instructions and Forms






USING QUICKBOOKS PRO 2002 TO TRACK 502 CONSTRUCTION LOAN ACTIVITY IN SUPERVISED BANK ACCOUNTS (SBA's)

Appendix I

USING QUICKBOOKS PRO 2002 TO TRACK 502 CONSTRUCTION LOAN ACTIVITY IN SUPERVISED BANK ACCOUNTS (SBA's)

Mutual Self-Help grantee organizations can successfully track individual family 502 loan activity using a variety of software programs. These programs include Excel or Lotus 1-2-3 spreadsheets as well as most automated accounting systems. Many organizations choose Quickbooks for this purpose because it is relatively inexpensive and easy to use for non-accountants.

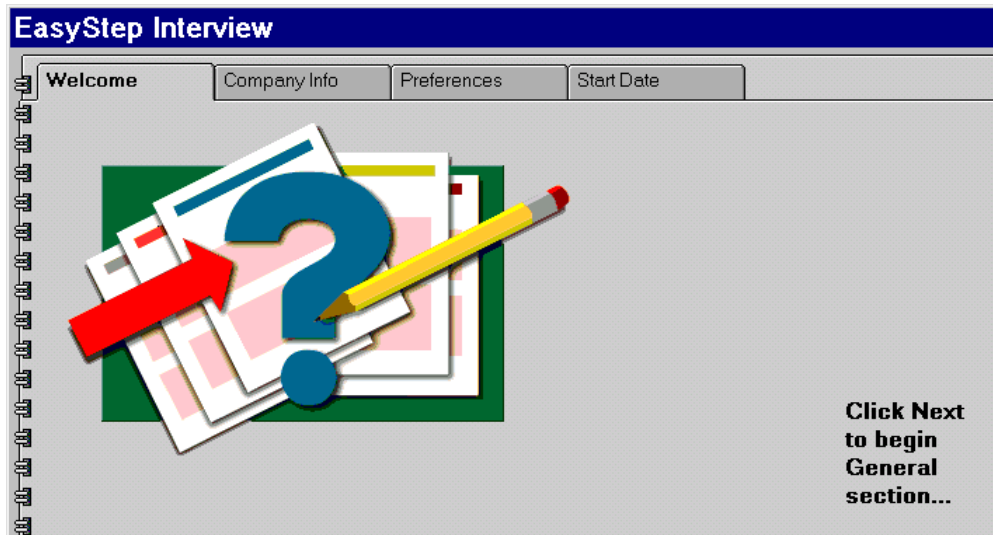
The following are some guidelines to follow if your organization plans to use Quickbooks to track the activity in your 502 families' supervised bank accounts:

-  Purchase or upgrade to **Quickbooks PRO 2002**. This version of the software will allow you to network with other computers. It also offers easy exporting of reports to Excel for customizing.
-  Set up one company to track all of your Self-Help groups. (You might call the company "502 Family SBA's".) Use your typical construction period, NOT your organization's fiscal year, for **First Month in your Fiscal Year** under **Company Information**. (NOTE: You can also create a separate company for each group but that will require that you re-create the chart of accounts for each group.)
-  This manual makes use of the Class and Customer: Job features of Quickbooks Pro. Classes are used to indicate the source of the construction funds for each family. The Customer: Job feature is used for each transaction to indicate the group and family.



SETTING UP THE COMPANY

You can use the “EasyStep Interview” in Quickbooks Pro 2002 to set up the accounting “company” you will use to record activity in the families’ 502 checking accounts. This process is a simple way to get started and you can make changes in most areas of the setup later once you begin entering transactions.



Most of the information you will be entering during this set-up process is in the **General** section of the interview.

Remember: You are setting this up to track the 502 family construction loans so don't enter your corporate name or Federal ID number when asked to enter company information.

Use “502 Family Mortgages” or something similar as a company name.

A screenshot of the 'EasyStep Interview' window, specifically the 'Company Info' tab. The window has a blue title bar and a tabbed interface with 'Welcome', 'Company Info', 'Preferences', 'Start Date', and 'General'. The 'Company Info' tab is active, showing a section titled 'Your company name'. It contains two text entry fields: 'Company Name' (with the text '502 SBA Bookkeeping Sample') and 'Legal name'. Below these fields is a 'Tell Me More' section with the text 'What if I have more than one business?' and a 'More' button. On the right side, there is a vertical list of sections: 'General' (checked), 'Income & Expenses' (checked), 'Income Details', 'Opening Balances', and 'What's Next'. At the bottom, there are buttons for 'Prev', 'Next', 'Progress' (with a progress bar), and 'Leave'.

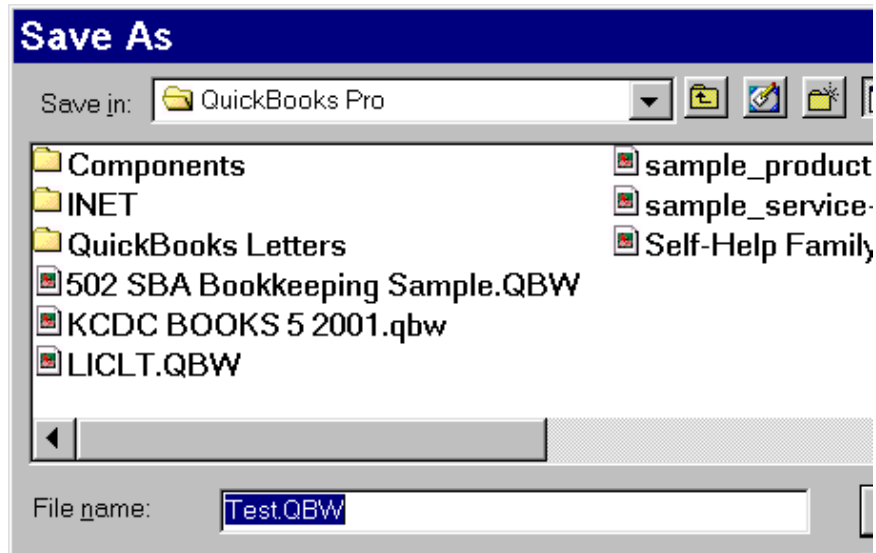
When asked to indicate the **first month of the fiscal year**, you should use the first day of the month during which you close on the first 502 loans and/or when you open the families' individual supervised bank accounts.

The screenshot shows the 'EasyStep Interview' window with the 'Company Info' tab selected. The 'Other company information' section contains three input fields: 'Enter the federal tax ID number that you use on your federal income tax returns:', 'Enter the first month of your income tax year:' (set to January), and 'Enter the first month in your fiscal year:' (set to January). A 'Tell Me More' section at the bottom asks 'What's a federal ID? a tax year? a fiscal year?' with a 'More' button. The right sidebar shows 'General' as the active category, with sub-items 'Income & Expenses', 'Income Details', 'Opening Balances', and 'What's Next'. The bottom navigation bar includes 'Prev', 'Next', 'Progress' (a progress bar), and 'Leave' buttons.

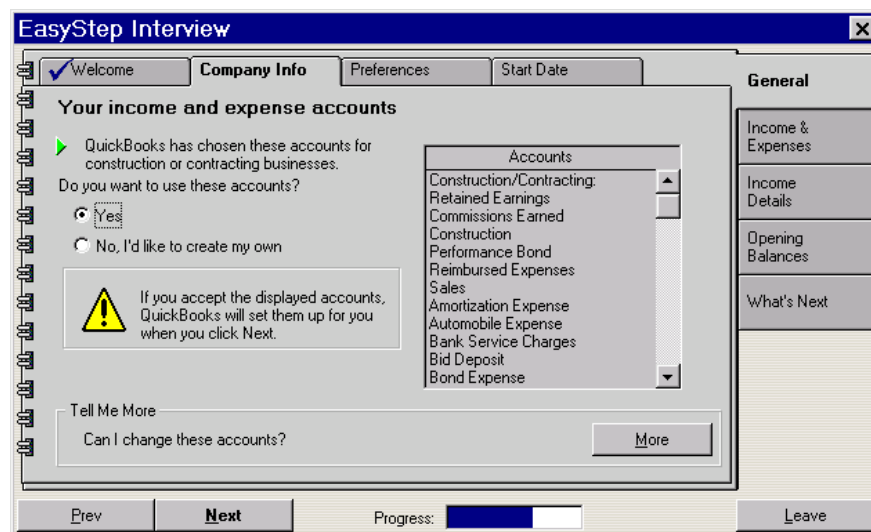
Under “**Select Your Type of Business**”, select “Construction /Contracting”. (**Remember** – This is NOT your organization’s information.) Quickbooks Pro will use this information to propose a sample chart of accounts.

The screenshot shows the 'EasyStep Interview' window with the 'Company Info' tab selected. The 'Select your type of business' section instructs the user to 'Select your business type from the scrollable list.' A yellow warning icon with an exclamation mark is displayed, with the text: 'Choose your company type carefully. You can not change your company type later.' Below this is a scrollable list titled 'Industry' with the following options: 'Accounting/CPA', 'Advertising/PR', 'Architecture', 'Construction/Contracting' (which is highlighted), 'Consulting', and 'Farming/Ranching'. The right sidebar shows 'General' as the active category, with sub-items 'Income & Expenses', 'Income Details', 'Opening Balances', and 'What's Next'. The bottom navigation bar includes 'Welcome', 'Company Info', 'Preferences', 'Start Date', and 'Leave' buttons.

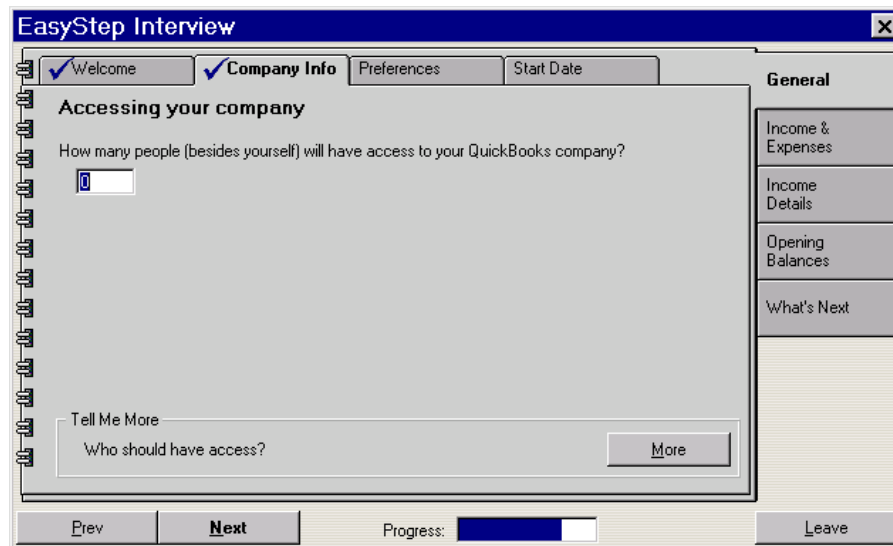
You will now be prompted to save the company file. The default location is “Programs Files/Intuit/Quickbooks Pro/ (your company name)”. You can select a different location at this time.



Once Quickbooks Pro has created a file for this company, you will be asked if you want the income and expense accounts set up for this type of organization. Use these to start your chart of accounts and then you can delete unnecessary accounts and add others at a later time.



The next window will ask how many people will have access to this Quickbooks company. You should have at least two so that there is a back-up person who can access the information. You can add passwords to limit access at a later time.



You will now go to the **Preferences** section of the interview. Answer “No” to questions regarding inventory, sales tax, payroll, estimates, and time tracking. You will not need any of these features since you are merely tracking costs involved with the building of each family’s Self-Help home.

Answer “Yes” when asked if you want to use the “Class” feature of Quickbooks. (See the “Setting Up The Accounts” section for more information about using this feature.)

Choose “Enter the checks directly” if you will be entering transactions on a cash basis: that is, entering the draws when they are deposited and the bills when they are paid. This is the most common method for tracking 502 loan transactions. If you will use this method, you will also choose “Cash-Based Reports” when prompted in the interview.

EasyStep Interview

✓ Welcome ✓ Company Info **Preferences** Start Date

General

Income & Expenses

Income Details

Opening Balances

What's Next

Two ways to handle bills and payments

Choose one of the two following ways to track your bills and payments.

☒ Enter the checks directly.

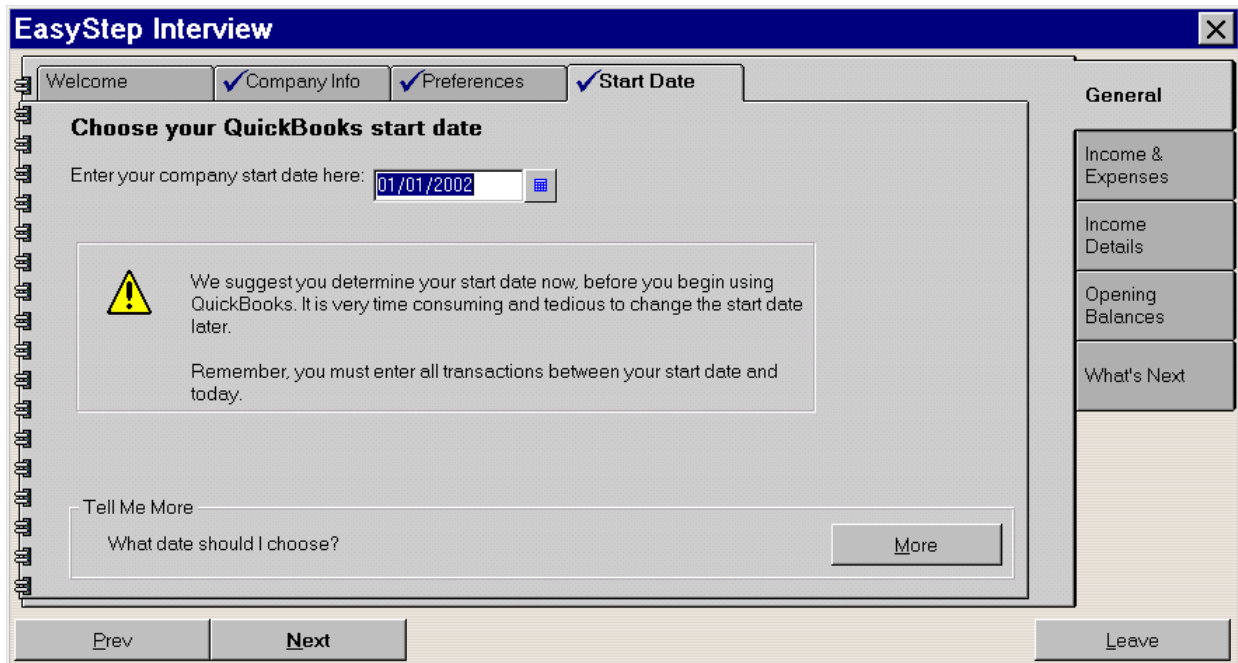
☐ Enter the bills first and then enter the payments later.

The first option is simple since it only involves one step.

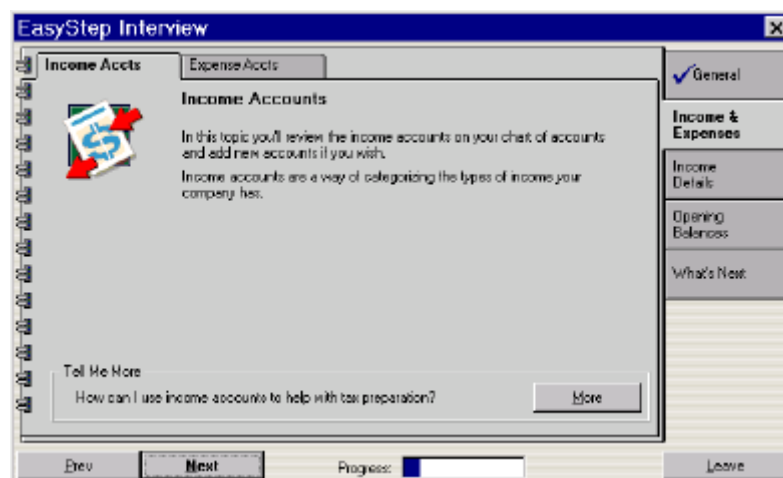
The second option is a two-step process. QuickBooks reminds you when your bills are due, so that you can pay at the last possible moment or in time to get early payment discounts.

Prev **Next** Progress: Leave

In the **Start Date** section, use the first day of the month you chose for the start of your fiscal year. Since this is a new “company”, there won’t be any historical transactions or beginning balances to enter.



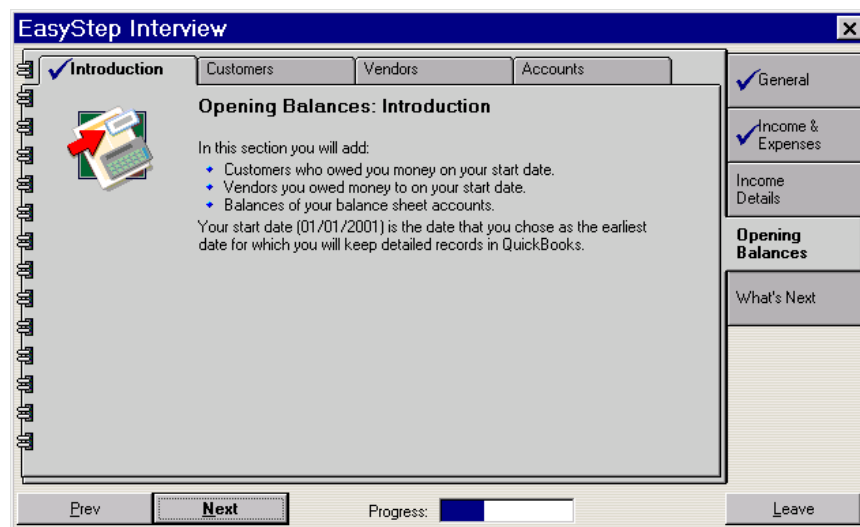
In the **Income and Expenses** section, you will have an opportunity to add both income and expense accounts to the chart of accounts already set up for you by Quickbooks. Don’t worry about adding and deleting accounts during this interview. It can be done once the company setup has been completed. (See the “Setting Up The Accounts” section of this manual.)



Skip the **Income Details** section of the interview since you will not be using the item or inventory features of Quickbooks Pro for this company.



Answer “No” to all of the questions in the **Opening Balances** section of the interview. You could set up bank accounts here but, like adding and deleting income and expense accounts, it can also be done once the company has been set up and the interview completed. (See the “Setting Up The Accounts” section of the manual.)




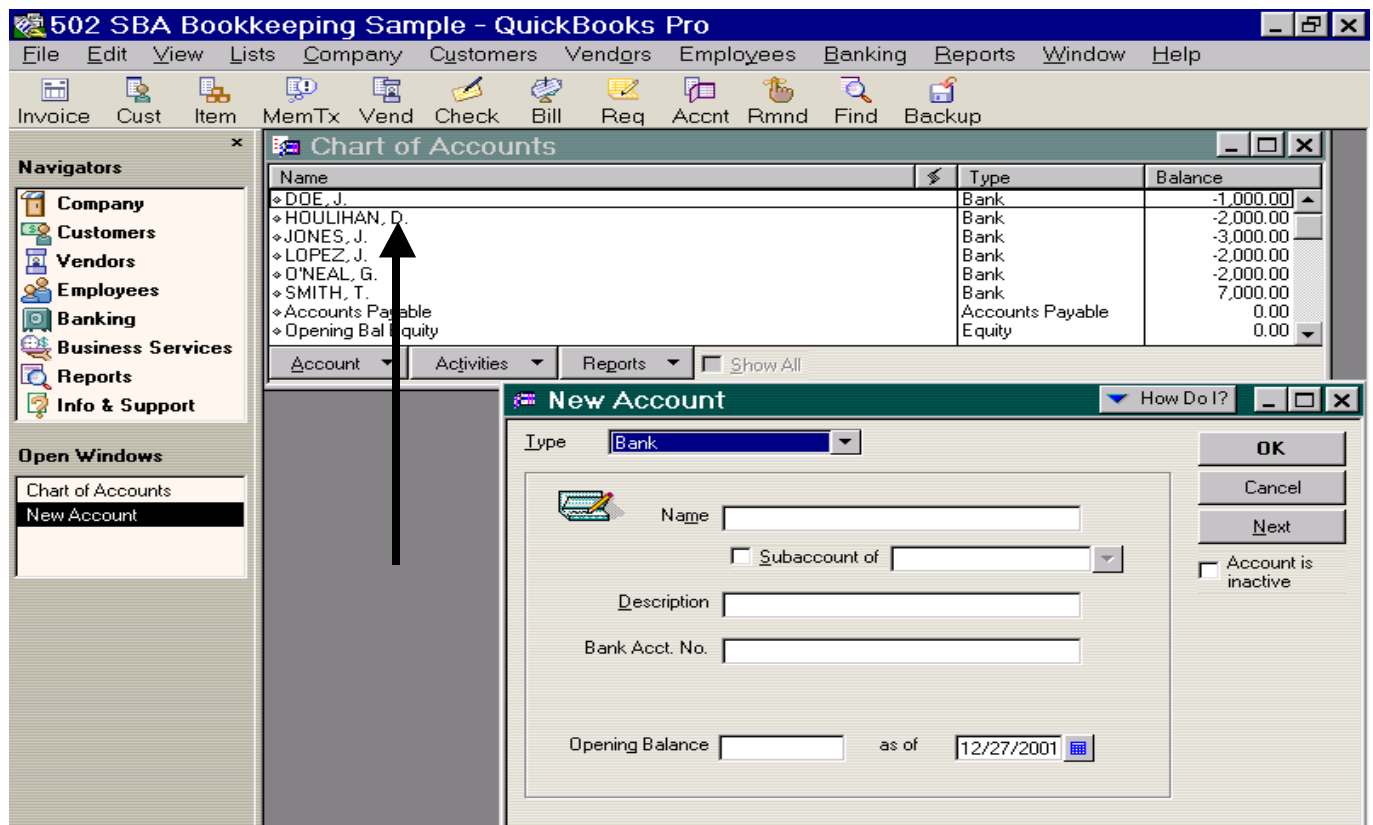
The final section of the EasyStep Interview provides information on creating a backup copy of your file as well as setting up users and passwords.



SETTING UP THE ACCOUNTS

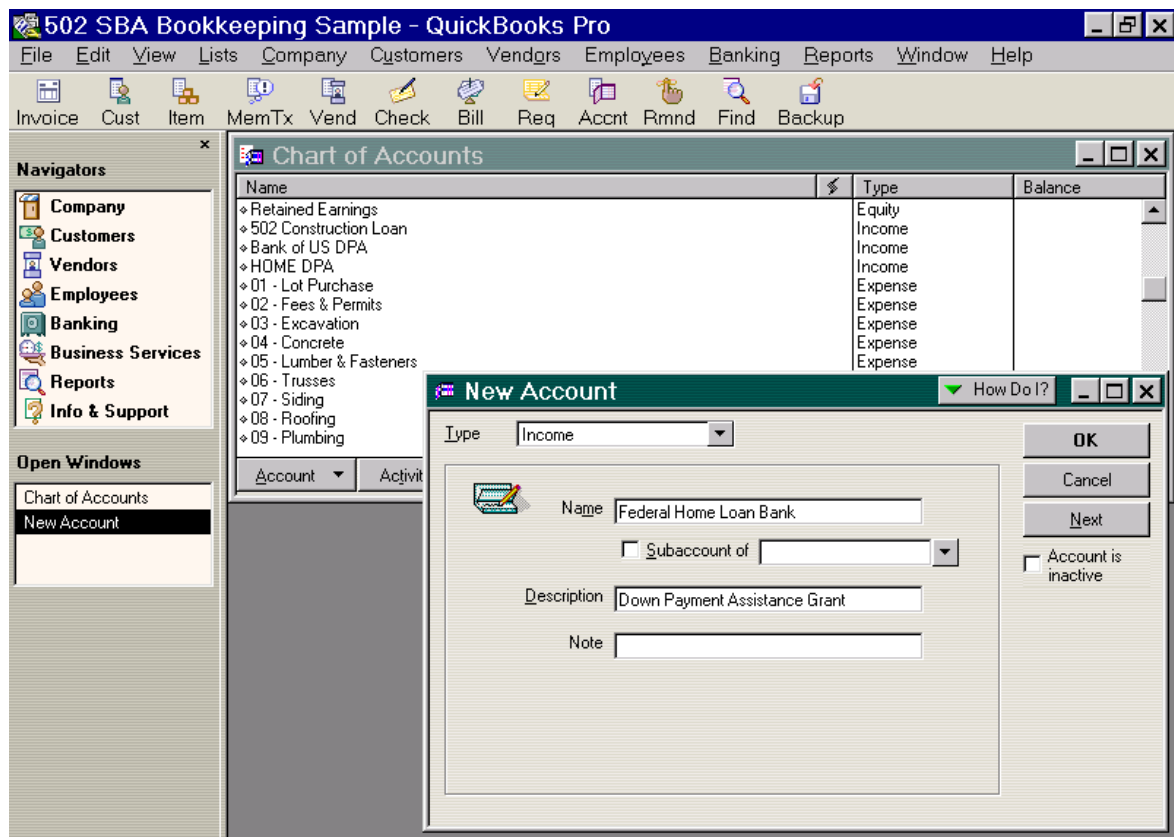
1. Create the Chart of Accounts (Go to **Lists**, then **Chart of Accounts**):

 Create a line item for each family's supervised bank account. Go to **Account** and then **New**. The **Type** should be "Bank", the **Name** should include the family's name as it appears on the bank account and might also include the lot number, and the **Bank Acct. No.** should be the checking account number for the family. There will not be an **Opening Balance** since these are new bank accounts that are set up for each family. (If you have chosen to use the "Construction/Contracting" type of business in the EasyStep interview, you will see a long list of income and expenses in the Chart of Accounts. You can delete most of these as you set up the accounts for your 502 families. You can also inactivate accounts that you don't want to show on lists or reports.)

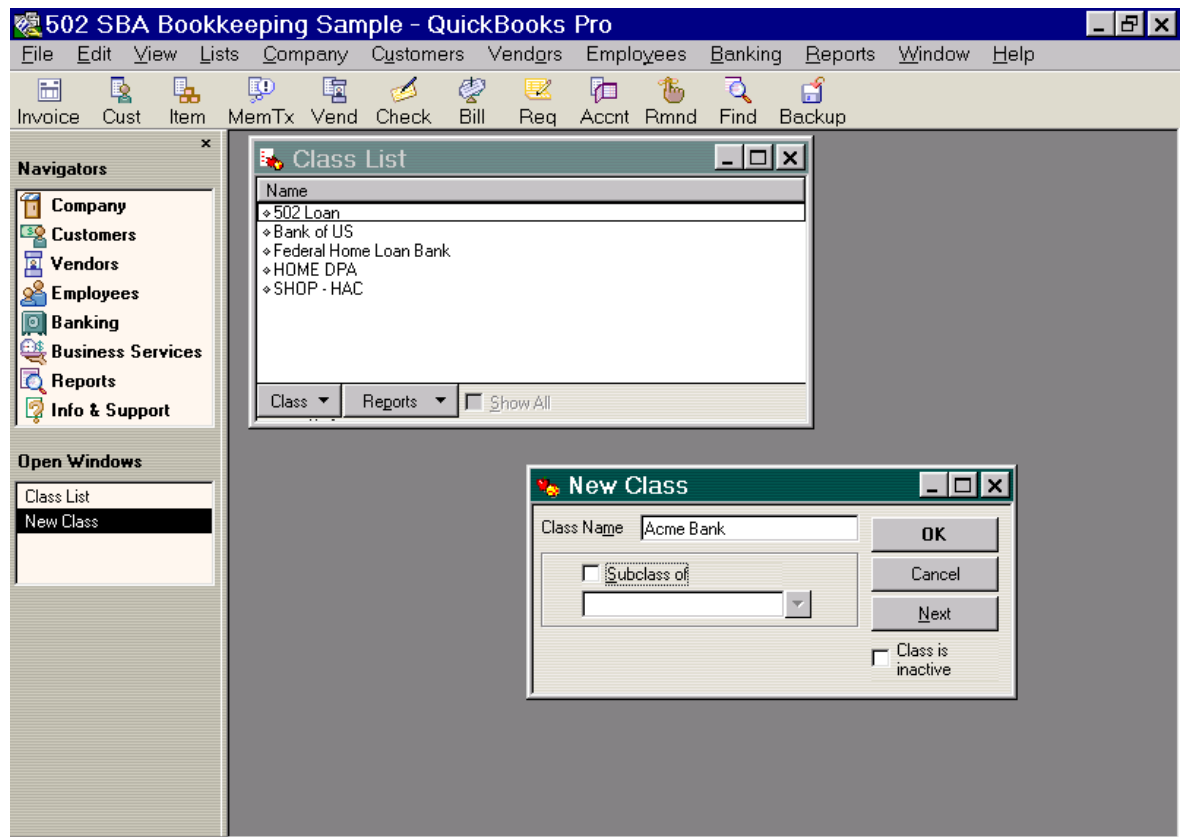


To make changes to any accounts, highlight the account you want to edit, go to **Account** and then **Edit**. Once you have made the changes, hit **OK**.

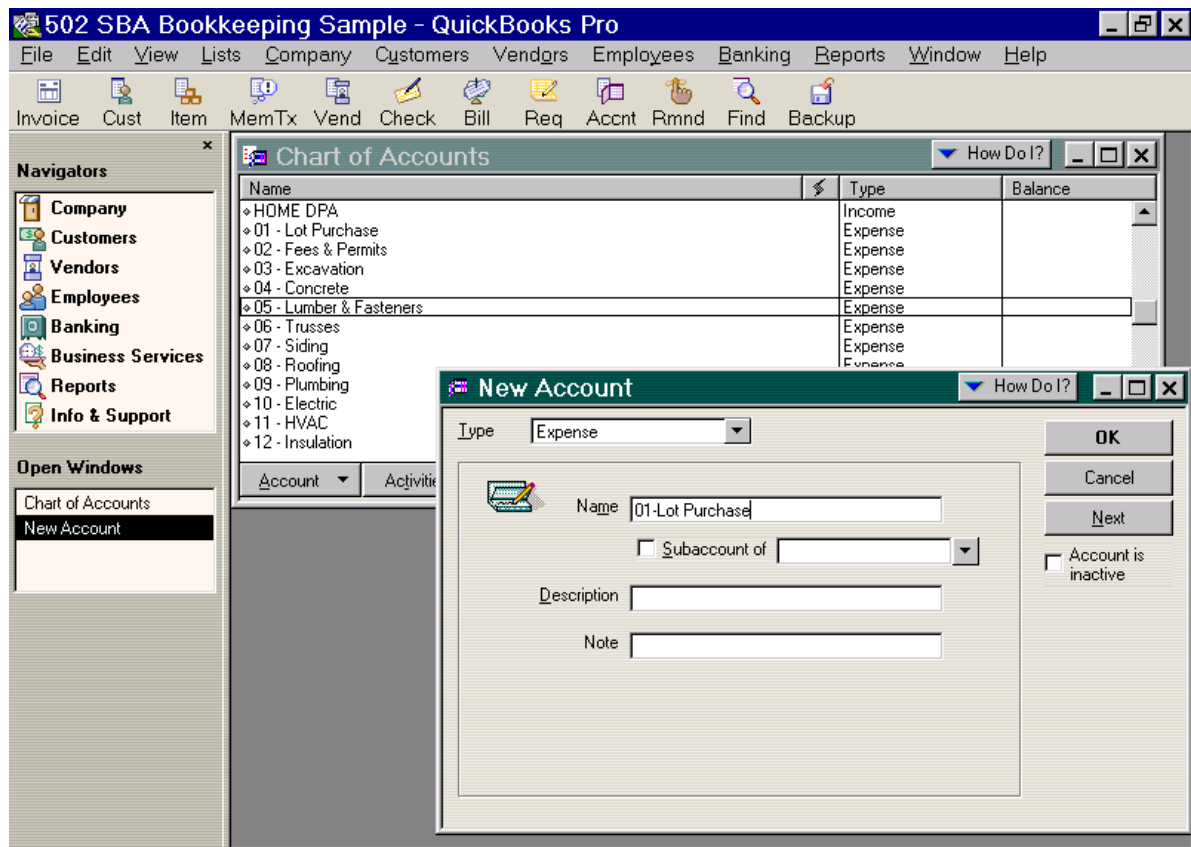
[i] Create a line item for **each source of construction funds** including the 502 construction loan, down payment assistance grant &/or loan, and other leveraged funds. Go to **Account** and then **New**. The **Type** should be “Income” and the **Name** should be the source of the funds (e.g. “502 Construction Loans”). (NOTE: Normally loans are recorded as liabilities rather than income but, in this case, the software is being setup only to track activity in and out of the checking accounts.) At this time, you can also delete all unnecessary income and expense accounts that were preset by Quickbooks during the EasyStep set-up process.



Create a Class for each **source of construction funds** including the 502 construction loan, down payment assistance grant &/or loan, and other leveraged funds. Go to **Lists, Class Lists, and New** to create each class. In addition to an account category and a customer/job, all deposits and disbursements for each family's loan must be assigned the appropriate class in order to track the expenditures by funding source if there is more than one source of funds to build each home.



❏ Create a line item for **each construction expense** using the development plan breakdown. Consider the lowest level of detail needed for reports when creating these line items. **GO to Lists, Chart of Accounts, Account, and New.** The **Type** should be “Expense”. The **Name** should be the name of the expense or account number for the expense or a combination of the two. (NOTE: You can also create subaccounts that total into an overall expense category.) In order to show expenses in the desired order on reports, it is recommended that a two-digit number such as the cost code be used as a prefix before the name of the expense item (e.g. “01-Lot Purchase”). Quickbooks will use the numerical order rather than alphabetical order when creating reports. You can also change the order of the line items by holding down the left mouse button when you see the “+” sign on the highlighted line item.



You can also create sub-accounts to further refine the amount of expense detail you can track for each family or lot.

2. Set up a coding systems to track all deposits and expenses by group and family using the Customer: Job feature of Quickbooks. This will allow you to generate reports by family as well as for the group as a whole.

First you must set up the group as a Customer. Go to **Lists**, **Customer:Job List**, then **Customer:Job** and **New** to enter a group as a new customer. Use your group number and/or project name or address as the “Customer” name.

Next you must create a separate “Job” under that customer for each family or lot number. Go to **Lists**, then **Customer:Job** and highlight the group that you are setting up. Go to **Customer:Job** and then **Add Job**. Use the Lot # & Family Name as “Job Name”.

502 SBA Bookkeeping Sample - QuickBooks Pro

File Edit View Lists Company Customers Vendors Employees Banking Reports Window Help

Invoice Cust Item MemTx Vend Check Bill Req Acct Rmnd Find Backup

Customer:Job List How Do I?

Name	Balance	Notes	Job Status	Estimate Total
♦ Group 1 - Main Street	0.00			
♦ Doe, J.	0.00			
♦ Houlihan	0.00			
♦ Jones, J.	0.00			
♦ Lopez, J.	0.00			
♦ O'Neal, G.	0.00			
♦ Smith, T.	0.00			
♦ Group 2 - Pine Street	0.00			

New Customer How Do I?

Customer:Job

Customer Group 3 - Grove Street

Address Info Additional Info Payment Info Job Info

Company Name Contact

Mr./Ms./... Phone

First Name M.I. FAX

Last Name Alt. Ph.

Alt. Contact

E-mail

Addresses

Bill To Ship To

>> Copy >>

OK Cancel Next

☐ Customer inactive

502 SBA Bookkeeping Sample - QuickBooks Pro

File Edit View Lists Company Customers Vendors Employees Banking Reports Window Help

Invoice Cust Item MemTx Vend Check Bill Req Acct Rmnd Find Backup

Navigators

- Company
- Customers
- Vendors
- Employees
- Banking
- Business Services
- Reports
- Info & Support

Open Windows

- Customer:Job List
- New Job

Customer:Job List

Name	Balance	Notes	Job Status	Estimate Total
♦ Group 1 - Main Street	0.00			
♦ Doe, J.	0.00			
♦ Houlihan	0.00			
♦ Jones, J.	0.00			
♦ Lopez, J.	0.00			
♦ O'Neal, G.	0.00			
♦ Smith, T.	0.00			
♦ Group 2 - Pine Street	0.00			

New Job

Job Name: Morgan, H.

Address Info Additional Info Job Info

Customer: Group 2 - Pine Street

Company Name:

Mr./Ms./...:

First Name: M.I.:

Last Name:

Contact:

Phone:

FAX:

Alt. Ph.:

Alt. Contact:

E-mail:

Addresses

Bill To:

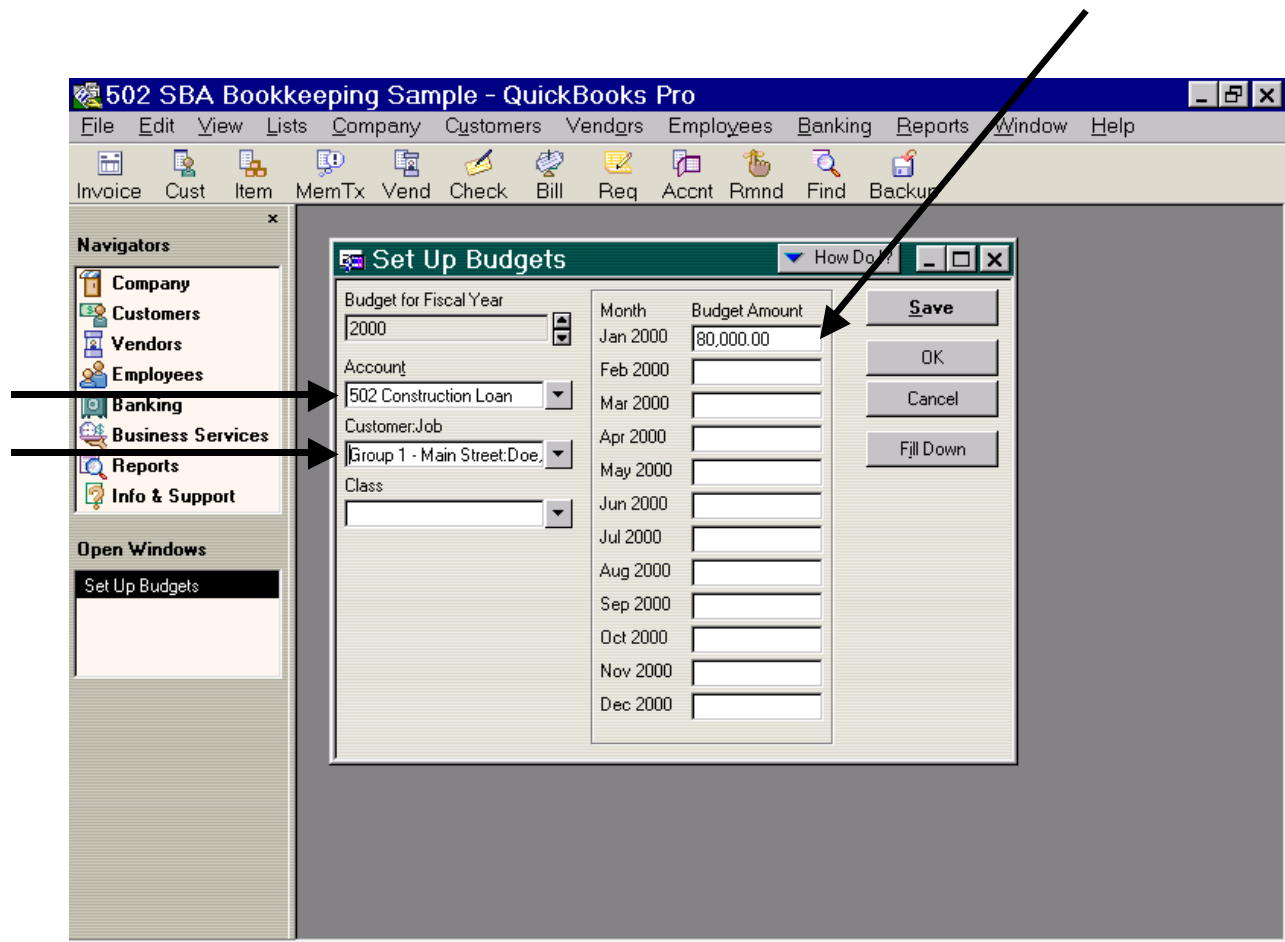
Ship To:

>> Copy >>

OK Cancel Next

☐ Job is inactive

3. Enter budget information by “Job” for each line item from the cost estimates for each family’s house. Go to **Company**, then **Set Up Budgets**. Check that the “Budget for Fiscal Year” shows the correct year. Under “Account”, choose the line item. Under “Customer: Job”, choose the individual family/lot number. Enter 100% of the budgeted amount for each family by line item in the top space under “Budget Amount”. Hit **Save** to continue or **OK** to leave the screen. Repeat this process until budgeted figures are entered for each line item for all families/lot numbers.



To check to see what budgets you have entered for each family, go to **Reports, Budget**, then **Profit and Loss Budget vs. Actual by Job**.



ENTERING TRANSACTIONS

┆ The first expenses involved in the construction of a Self-Help home are usually the purchase of the lot and the closing costs of the loan, neither of which are paid by check from the supervised bank accounts. These must be entered into the accounting system, however, in order to generate meaningful reports on the status of construction costs. These “non-check” transactions are entered through a journal entry using the closing documents from the title company.

Go to **Company**, then **Make Journal Entry**. Use the date of the transaction for “Date”. Use a number that reflects the month and/or the lot number for “Entry No”. You might use #070201-1 to indicate the month (07), the year (02) and the lot number (01) as well as the number “1” to indicate that this is the first journal entry for the month. (“Entry No.” should be unique for each journal entry.) Choose the appropriate line item for the “Account” for both the debit and credit entries. The debit is usually the expense line item and the credit is usually the income line item. (See sample below.) Under “Name”, choose the appropriate “Job” to indicate the family or lot number affected by this transaction. Under “Class”, show the source of the funds used to pay for these transactions. “Memo” can be used to record information regarding each line item of the journal entry.

502 SBA Bookkeeping Sample - QuickBooks Pro

File Edit View Lists Company Customers Vendors Employees Banking Reports Window Help

Invoice Cust Item MemTx Vend Check Bill Req Acct Rmnd Find Backup

General Journal Entry How Do I?

Previous Next Print... History

Date: 03/28/2000 Entry No.: 1299-01

Account	Debit	Credit	Memo	Name	Class
01 - Lot Purchase	17,000.00		Paid at Closing L...	Group 1 - Main S...	502 Loan
502 Construction L...		29,000.00	1st Draw	Group 1 - Main S...	502 Loan
29 - Closing Fees	2,000.00			Group 1 - Main S...	502 Loan
01 - Lot Purchase	8,000.00		Paid at Closing L...	Group 1 - Main S...	HOME ...
HOME DPA		8,000.00	Grant	Group 1 - Main S...	HOME ...
DOE, J.	10,000.00				
	0.00				

Save & Close Save & New Revert

[Get paid faster by billing your customers online.](#)

In the example above, the J. Doe family received an \$8,000 down payment assistance grant from HOME to pay for a portion of the cost of their lot. The grant and the first drawdown of 502 construction loan funds in the amount of \$29,000 went directly to the title company to be used to purchase the lot and to pay the closing costs of the loan. The \$8,000 went toward the \$25,000 cost of the lot. The \$29,000 draw was allocated as follows:

1. \$17,000 to pay the balance of the cost of the lot;
2. \$2,000 to pay the buyer's closing costs; and

3. \$10,000 to the family's supervised checking account to be used for construction costs.

└ Enter all checking account activity:

┌ If you are only recording expenses when invoices are paid, checks written can be entered through the “Write Checks” activity in Quickbooks. Go to **Banking**, then **Write Checks**. Select the correct bank account from which the check was written. If you are using manual checks, make sure the box next to “To be printed” is not checked. Enter the check number next to “No.” and enter the date the check was written. Enter the name of the payee. (If this is a new vendor, you will be asked if you want to “Quick Add” this vendor to the list.) Select the correct expense line item under “Account” account and the correct Customer: Job and Class for this transaction. You might want to record the purchase order number under “Memo” if appropriate.

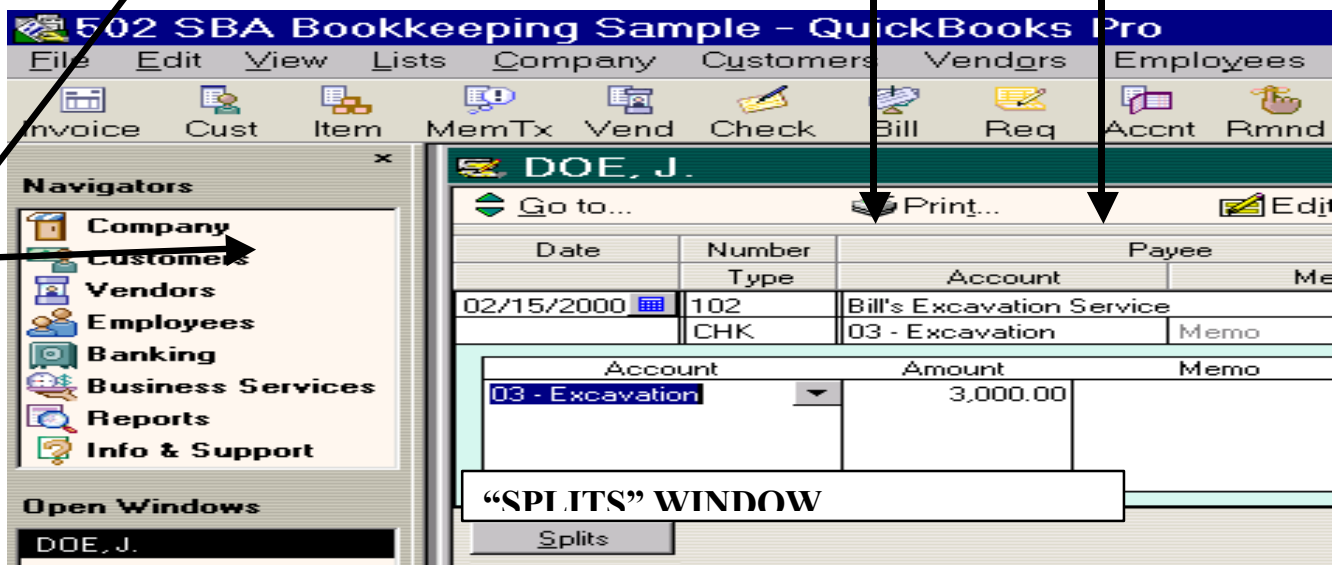
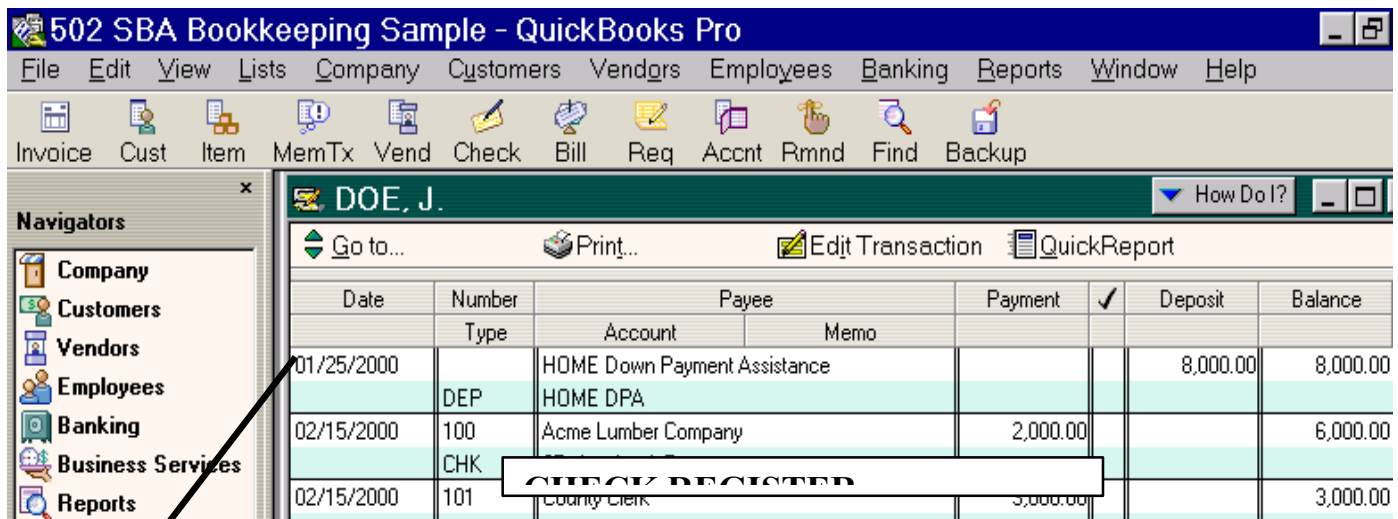
The screenshot shows the 'Write Checks - DOE, J.' window in QuickBooks Pro. The 'Bank Account' dropdown is set to 'DOE, J.' and the 'Ending Balance' is -1,000.00. The check details include: No. 103, Date 07/05/2001, Pay to the Order of County Clerk, \$ 3,000.00, and the amount in words 'Three thousand and 00/100'. The 'To be printed' checkbox is unchecked. The 'Expenses' section shows a total of \$3,000.00. The 'Items' table has one entry: Account 02 - Fees & Permits, Amount 3,000.00, Memo Building Permit, Customer/Job Group 1 - Main Str..., and Class 502 Loan. The 'Memo' field contains 'County Clerk'. The 'Address' field is empty. The 'Clear Splits', 'Recalculate', 'Save & Close', 'Save & New', and 'Clear' buttons are at the bottom.

Account	Amount	Memo	Customer/Job	Class
02 - Fees & Permits	3,000.00	Building Permit	Group 1 - Main Str...	502 Loan

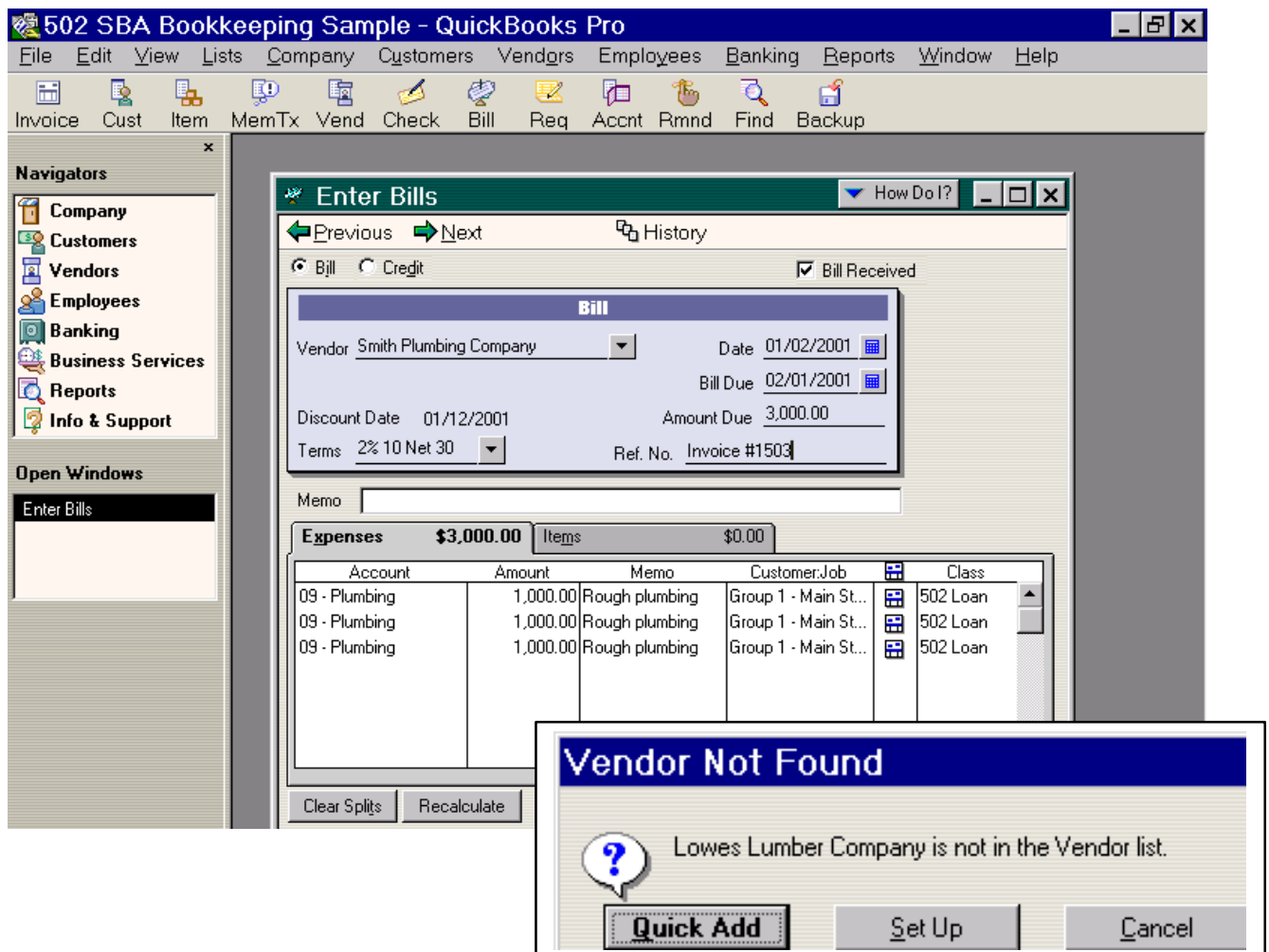
Checks can also be entered directly into the appropriate check register. Go to **Banking**, then **Use Register**. Select the appropriate bank account by highlighting it and clicking on **OK**. Enter the date, check number, payee (vendor), account (line item) and amount.

NOTE: All checks entered directly through the check register must be entered as “Splits” in order to select the “Customer: Job” and the “Class” for each expense.



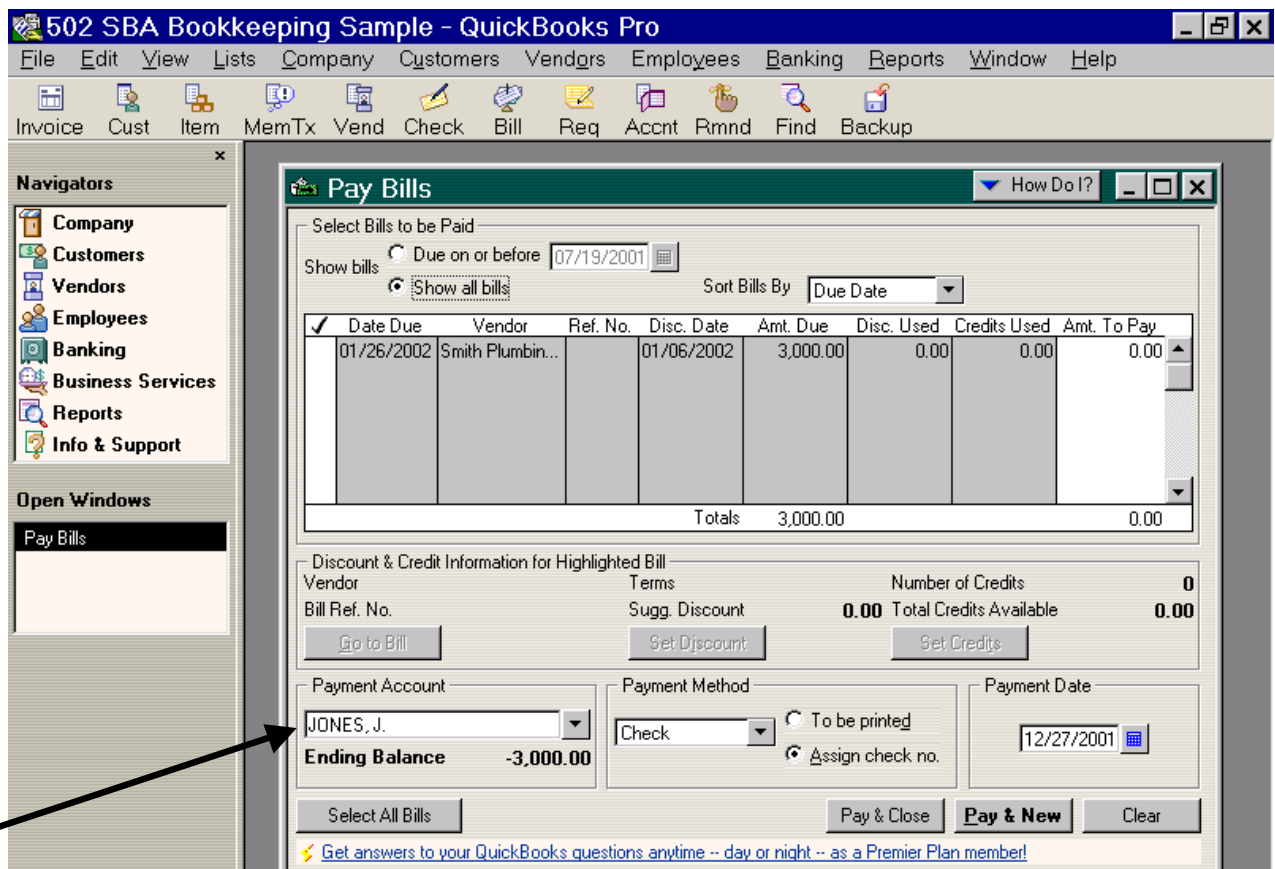


u If you plan to enter construction invoices as they are received (accrual basis) rather than just when they are paid (cash basis), go to **Vendors** and then **Enter Bills**. Use the invoice number as the “reference number”. Enter the appropriate date, vendor, amount, and account (line item). If the vendor is new, just type in the name and Quickbooks will prompt you to ask if you want to add it to the Vendor list. If the invoice will be split among more than one family, you must enter the amount to be charged to each family as separate lines. Make sure that you select the appropriate “Customer:Job” and funding source (“Class”) for each line. Once you have entered the invoice (even though you haven’t paid it yet), the expenses will appear on the financial reports for each family if you have chosen accrual basis in your reporting preferences under **Edit, Preferences**.



u In order to show payments for invoices already entered into Quickbooks Pro, go to **Vendors** and **Pay Bills**. Check the bill to be paid. Make sure that the correct checking account from which this bill (or portion of the bill) will be paid is showing in the window entitled “Payment Account”. If you are using manual checks (rather than generating computer checks through Quickbooks Pro), make sure that the box next to “To be printed” is blank. If you are paying a portion of each bill from each family’s checking account, change the “Amt. Paid” column to the amount that should be coming out of this checking account. Hit “Pay & Close” to complete the transaction.

Go to **Banking** and **Use Register**. Choose the checking account used to pay this bill. Correct the check number and the date of the check if it is not correct in the check register.



502 SBA Bookkeeping Sample - QuickBooks Pro

File Edit View Lists Company Customers Vendors Employees Banking Reports Window Help

Invoice Cust Item MemTx Vend Check Bill Req Acct Rmnd Find Backup

Navigators

- Company
- Customers
- Vendors
- Employees
- Banking
- Business Services
- Reports
- Info & Support

Open Windows

- Pay Bills

Pay Bills

Select Bills to be Paid

Show bills: ☐ Due on or before 07/19/2001 ☒ Show all bills

Sort Bills By: Due Date

	Date Due	Vendor	Ref. No.	Disc. Date	Amt. Due	Disc. Used	Credits Used	Amt. To Pay
<input checked="" type="checkbox"/>	01/26/2002	Smith Plumbin...		01/06/2002	3,000.00	0.00	0.00	0.00
Totals					3,000.00			0.00

Discount & Credit Information for Highlighted Bill

Vendor: Smith Plumbin... Terms: 0/0 Number of Credits: 0

Bill Ref. No.: Sugg. Discount: 0.00 Total Credits Available: 0.00

Go to Bill Set Discount Set Credits

Payment Account: JONES, J. Ending Balance: -3,000.00

Payment Method: Check ☐ To be printed ☒ Assign check no.

Payment Date: 12/27/2001

Select All Bills Pay & Close Pay & New Clear

[Get answers to your QuickBooks questions anytime -- day or night -- as a Premier Plan member!](#)

- Deposits into the checking accounts can be entered directly into the check register as a split entry as indicated above so that you can select the appropriate “job” and “class”. Deposits can also be entered by going to **Banking** and **Make Deposit**. Make sure that you use the appropriate Customer:Job in the “Received From” column so that the transaction will show on the report by job.

Check
Register
Splits
Window

502 SBA Bookkeeping Sample - QuickBooks Pro

File Edit View Lists Company Customers Vendors Employees Banking Reports Window Help

Invoice Cust Item MemTx Vend Check Bill Req Acct Rmnd Find Backup

DOE, J. How Do I?

Go to... Print... Edit Transaction QuickReport

Date	Number	Payee	Payment	✓	Deposit	Balance
01/25/2000		HOME Down Payment Assistance	Payment		8,000.00	8,000.00
	DEP	HOME DPA	Memo			

Account	Amount	Memo	Customer:Job	Class
HOME DPA	8,000.00		Group 1 - Main ...	HOME D...

Ending balance -1,000.00

1-Line

Sort by Date, Type, Number/Re

Record Restore

Get answers to your QuickBooks questions anytime -- day or night -- as a Premier Plan member!

OR

Make
Deposits
Window

502 SBA Bookkeeping Sample - QuickBooks Pro

File Edit View Lists Company Customers Vendors Employees Banking Reports Window Help

Invoice Cust Item MemTx Vend Check Bill Req Acct Rmnd Find Backup

Make Deposits How Do I?

Previous Next Print Payments

Deposit To: DOE, J. Date: 01/25/2001 Memo: Deposit

Click Payments to select customer payments that you have received. List any other amounts to deposit below.

Received From	From Account	Memo	Chk No.	Pmt Meth.	Class	Amount
Group 1 - Main ...	HOME DPA	Grant			HOM...	8,000.00

Deposit Subtotal 8,000.00

To get cash back from this deposit, enter the amount below. Indicate the account where you want this money to go, such as your Petty Cash account.

Cash back goes to Cash back memo Cash back amount

Deposit Total 8,000.00

Save & Close Save & New Clear



CREATING REPORTS

• Create budget comparison reports for each family. Go to **Reports**, then **Budget**, then **Profit & Loss Budget vs. Actual by Job**. This will create a report showing year-to-date expenses, budget amounts and the amount over budget for each line item for all of the jobs in all groups. This report can be filtered to show one family at a time by going to **Modify Report**, then **Filters**, then **Name**, then choose one of the families listed. Make sure that you change the dates of the report so that it will include all relevant data. If you have chosen to use subaccounts in your chart of accounts, your reports will show all of the detail. If you would like to produce summarized reports, click on the “Collapse” button in the report window.

502 SBA Bookkeeping Sample - QuickBooks Pro

File Edit View Lists Company Customers Vendors Employees Banking Reports Window Help

Invoice Cust Item MemTx Vend Check Bill Req Acct Rmnd Find Backup

J. Doe Budget Comparison Report How Do I?

Modify Report... Memorize... Print... Excel... Hide Header Collapse Refresh

Dates Custom From 01/01/2000 To 03/31/2000 Columns Customer:Job

502 SBA Bookkeeping Sample
J. Doe Budget Comparison Report
 January through March 2000

Doe, J.
 (Group 1 - Main Street)

	Jan - Mar 00	Budget	\$ Over Budget	% of Budget	Total Group
Income					
502 Construction Loan	27,000.00	80,000.00	-53,000.00	33.8%	27,000
HOME DPA	8,000.00	8,000.00	0.00	100.0%	8,000
Total Income	35,000.00	88,000.00	-53,000.00	39.8%	35,000
Expense					
01 - Lot Purchase	25,000.00	25,000.00	0.00	100.0%	25,000
02 - Fees & Permits	3,000.00	5,000.00	-2,000.00	60.0%	3,000
03 - Excavation	3,000.00	3,000.00	0.00	100.0%	3,000
04 - Concrete	0.00	3,000.00	-3,000.00	0.0%	0
05 - Lumber & Fasteners	2,000.00	3,000.00	-1,000.00	66.7%	2,000
06 - Trusses	0.00	4,000.00	-4,000.00	0.0%	0
07 - Siding	0.00	3,000.00	-3,000.00	0.0%	0
08 - Roofing	0.00	4,000.00	-4,000.00	0.0%	0
09 - Plumbing	0.00	2,000.00	-2,000.00	0.0%	0
10 - Electric	0.00	2,000.00	-2,000.00	0.0%	0

You can rename the title of the report to include the family's name or lot number. Go to **Modify Report**, then **Header/Footer**, then edit the "Report Title". You can print this report as is or you can export this report to Excel by pressing the "Excel" button at the top of the report. (You must already have Excel installed on your computer.) You can then reformat the report and print it in Excel.

Modify Report: J. Doe Budget Comparison Report [How Do I?] [X]

Display Filters **Header/Footer** Fonts & Numbers

Show Header Information

- ☒ Company Name 502 SBA Bookkeeping Sam...
- ☒ **Report Title** J. Doe Budget Comparison ...
- ☒ Subtitle January through March 2000
- ☒ Date Prepared 12/31/93
- ☐ Time Prepared
- ☐ Report Basis
- ☒ Print header on pages after first page

Show Footer Information

- ☒ Page Number Page 1
- ☒ Extra Footer Line
- ☒ Print footer on first page

Page Layout

Alignment Standard

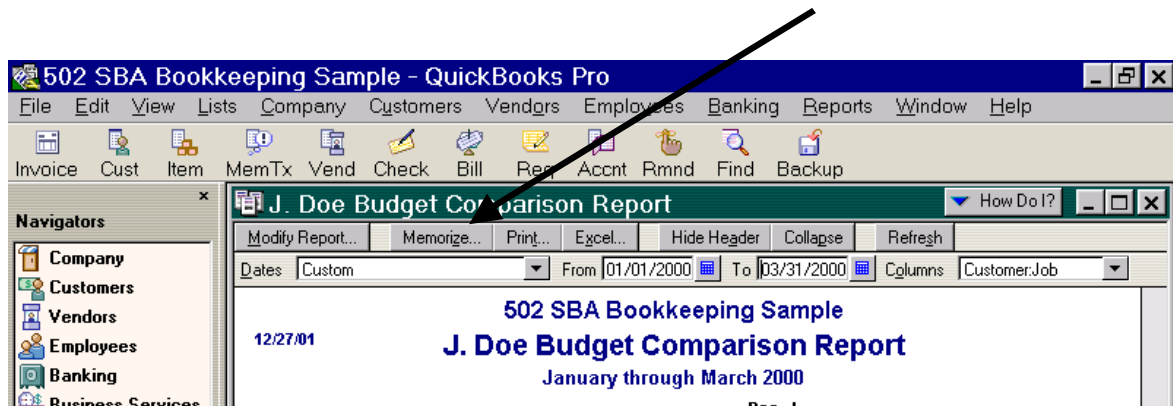
Time	Company
Date	Title
Basis	Subtitle
12/31/93	502 SBA Bookkeeping Sam...
12/31/93	J. Doe Budget Comparison ...
12/31/93	January through March 2000

Extra Line Page

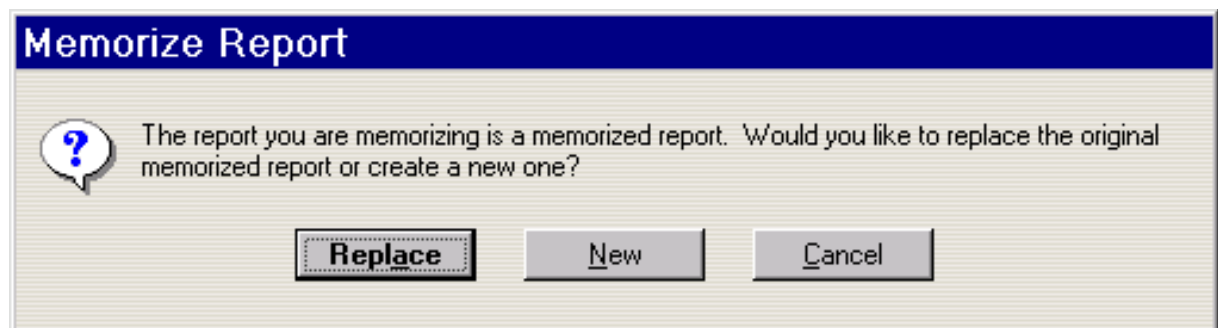
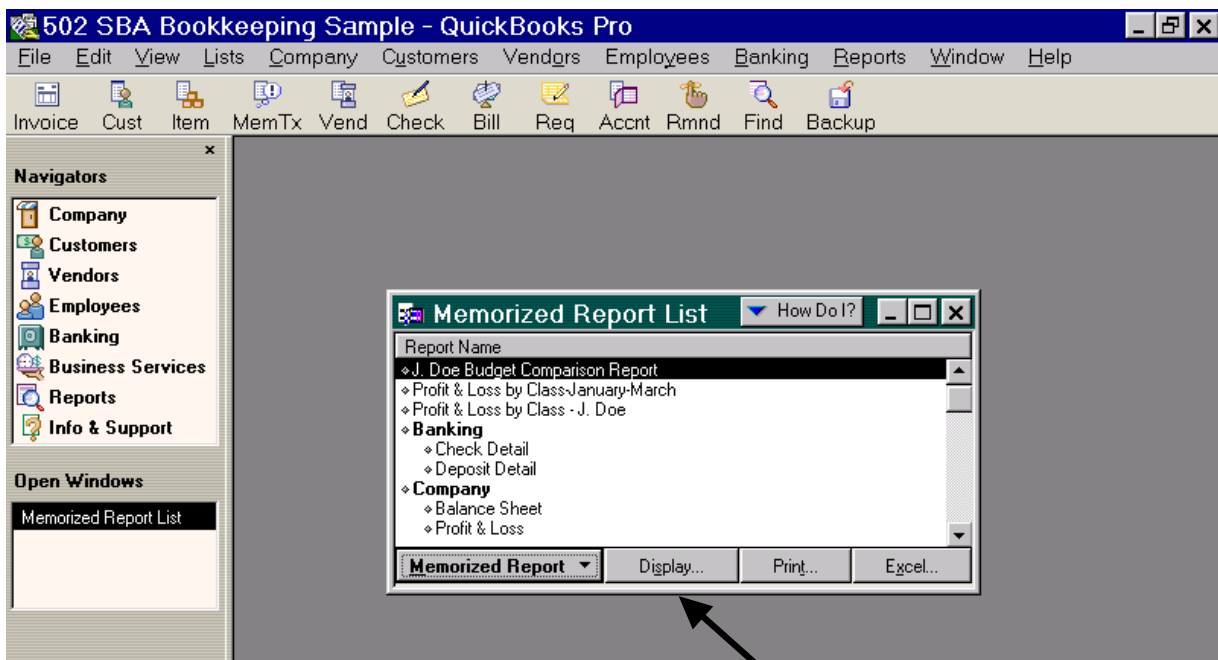
Revert

OK Cancel Help

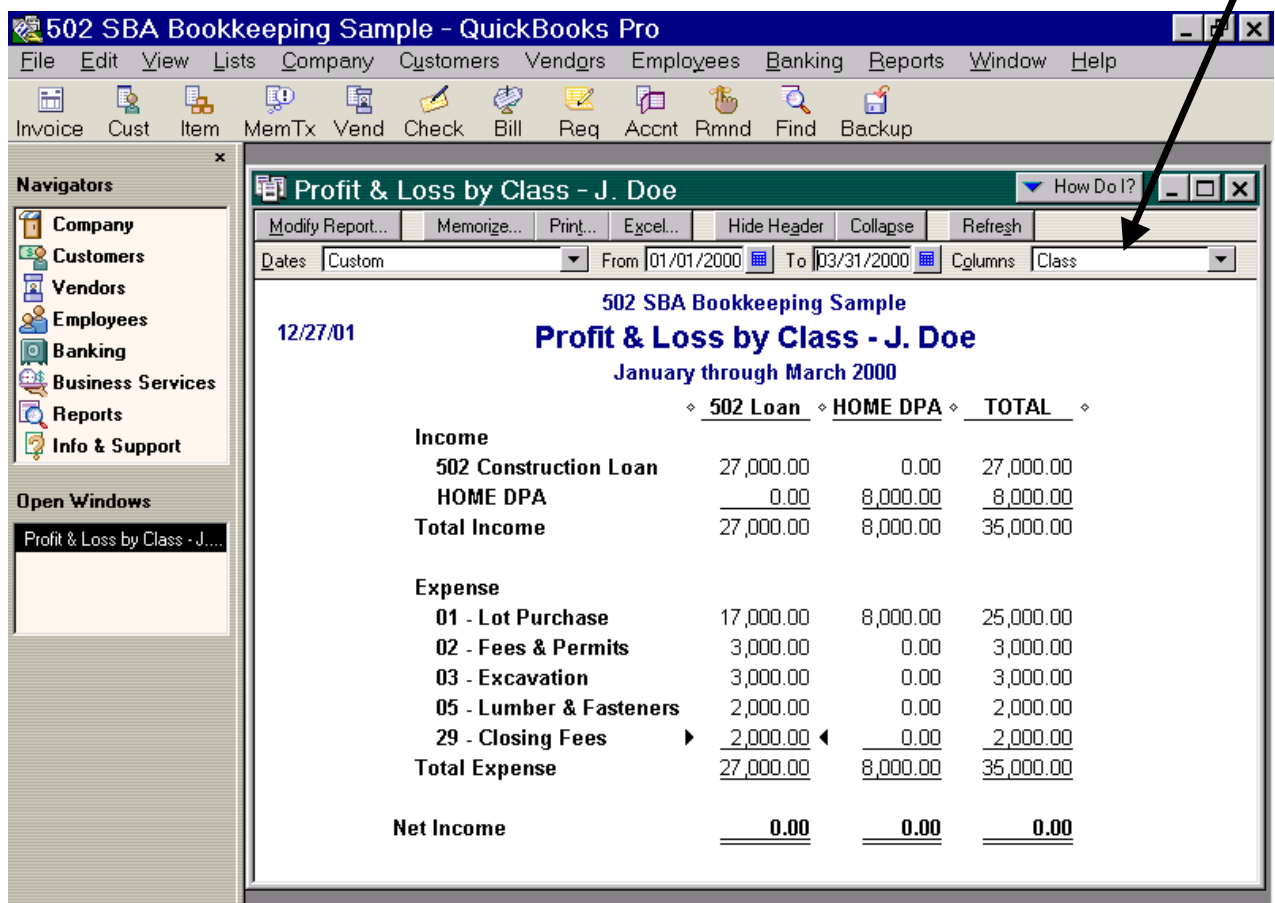
• In order to save time preparing future reports, you can memorize a report once you have formatted it appropriately. Once you have customized, filtered and edited a report, click on the “Memorize” button next to the Excel button. When the “Memorize Report” box appears, enter an appropriate name for this report and click on “OK”.



When you are ready to produce this report again, go to **Reports** and **Memorized Reports**. The next screen will show all of the reports that you have memorized. To open one of them, simply highlight it and click on “Display”. You can edit this report (e.g. update the dates) and click on the Memorize button again. You will be asked if you want to replace the previously memorized report. Click on “Replace” if you want to save the new version of this report. Click on “New” if you would like to create a new version of the report but save the old version.



• Create a revenue and expense report by funding source for each family. Go to **Reports**, then **Company & Financial**, then **Profit & Loss By Class**. This will create a report showing year-to-date income and expenses by class for all of the jobs in all groups. This report can be filtered to show one family at a time by going to **Modify Report, Filters**, then **Name**, then choose one of the families listed. Make sure that you change the dates of the report so that it will include all relevant data. You can rename the title of the report to include the family's name or lot number. While still in **Modify Report**, go to **Header/Footer**, then edit the **Report Title**. You can print this report as is or you can export this report to Excel by pressing the "Excel" button at the top of the report. (You must already have Excel installed on your computer.) You can then reformat the report and print it in Excel.



502 SBA Bookkeeping Sample - QuickBooks Pro

File Edit View Lists Company Customers Vendors Employees Banking Reports Window Help

Invoice Cust Item MemTx Vend Check Bill Req Acct Rmnd Find Backup

Profit & Loss by Class - J. Doe How Do I?

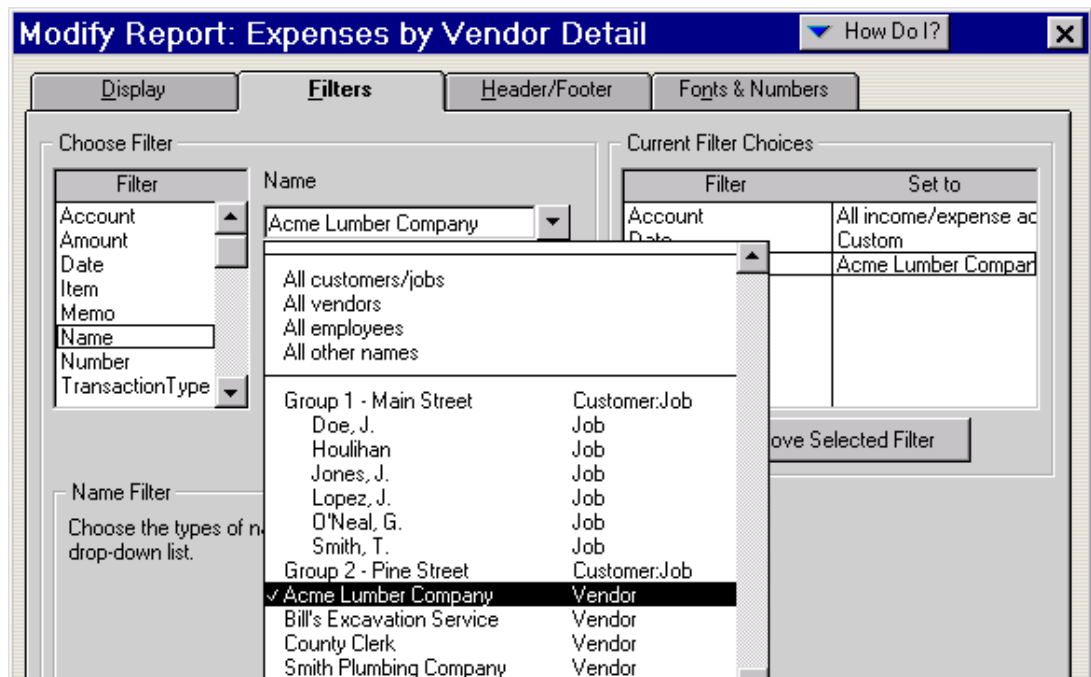
Modify Report... Memorize... Print... Excel... Hide Header Collapse Refresh

Dates Custom From 01/01/2000 To 03/31/2000 Columns Class

502 SBA Bookkeeping Sample
Profit & Loss by Class - J. Doe
 January through March 2000

	502 Loan	HOME DPA	TOTAL
Income			
502 Construction Loan	27,000.00	0.00	27,000.00
HOME DPA	0.00	8,000.00	8,000.00
Total Income	27,000.00	8,000.00	35,000.00
Expense			
01 - Lot Purchase	17,000.00	8,000.00	25,000.00
02 - Fees & Permits	3,000.00	0.00	3,000.00
03 - Excavation	3,000.00	0.00	3,000.00
05 - Lumber & Fasteners	2,000.00	0.00	2,000.00
29 - Closing Fees	2,000.00	0.00	2,000.00
Total Expense	27,000.00	8,000.00	35,000.00
Net Income	0.00	0.00	0.00

• Create vendor reports to show payments to each vendor. Go to **Lists**, **Vendor List**, and then **Reports**. Select **Reports on All Vendors**, then **Profit and Loss**, then **Expenses by Vendor Detail**. This will show all checks paid to all vendors for whatever time period you select. You can then filter this report to show only one vendor by going to **Modify Report**, **Filters**, then **Name**, then selecting an individual vendor.



502 SBA Bookkeeping Sample - QuickBooks Pro

File Edit View Lists Company Customers Vendors Employees Banking Reports Window Help

Invoice Cust Item MemTx Vend Check Bill Req Acct Rmnd Find Backup

Expenses by Vendor Detail How Do I?

Modify Report... Memorize... Print... Excel... Hide Header Refresh

Dates: Custom From 01/01/2000 To 03/31/2000 Sort By Default

1:26 PM
12/27/01

502 SBA Bookkeeping Sample
Expenses by Vendor Detail
Accrual Basis
January through March 2000

Type	Date	Num	Memo	Account	Split	Amount	Balance
Acme Lumber Company							
Check	02/15/2000	100	PO # 1000	05 - Lumber & Fa...	DOE, J.	2,000.00	2,000.00
Check	02/15/2000	100	PO # 2000	05 - Lumber & Fa...	HOULIHAN, D.	2,000.00	4,000.00
Check	02/15/2000	100	PO # 3000	05 - Lumber & Fa...	JONES, J.	2,000.00	6,000.00
Check	02/15/2000	100	PO # 4000	05 - Lumber & Fa...	LOPEZ, J.	2,000.00	8,000.00
Check	02/15/2000	100	PO # 5000	05 - Lumber & Fa...	O'NEAL, G.	2,000.00	10,000.00
Check	02/15/2000	100	PO # 6000	05 - Lumber & Fa...	SMITH, T.	2,000.00	12,000.00
Total Acme Lumber Company						12,000.00	12,000.00
TOTAL						12,000.00	12,000.00

Open Windows: Vendor List, Expenses by Vendor Detail

A detailed check register for each bank account can be printed in two ways:

- 🖨️ Open the check register by going to **Banking**, then **Use Register**. Select the bank account you want to use and hit the “**OK**” button. With the register open, go to **File**, then **Print Register** and select the date range for the desired report or hit the “**Print**” button that shows when the register is open.

Print Preview — Page 1 of 1

Print Prev page Next page Zoom In Help Close

502 SEA Bookkeeping Sample 12/29/2001

Register: DOE, J
From 01/01/2000 through 03/31/2000
Saved by: Chris, Type: Numbered

Date	Number	Type	Amount	Memo	Payment	C	Deposit	Balance
01/29/2000		ROME Drive Payment	ROME DPA				5,000.00	5,000.00
02/15/2000	100	Acme Lumber Company	05 - Lumber & Materials		3,000.00			2,000.00
02/15/2000	101	Country Club	02 - Fees & Payments		3,000.00			0.00
02/15/2000	102	Bill's Excavation Service	03 - Excavation		3,000.00			0.00

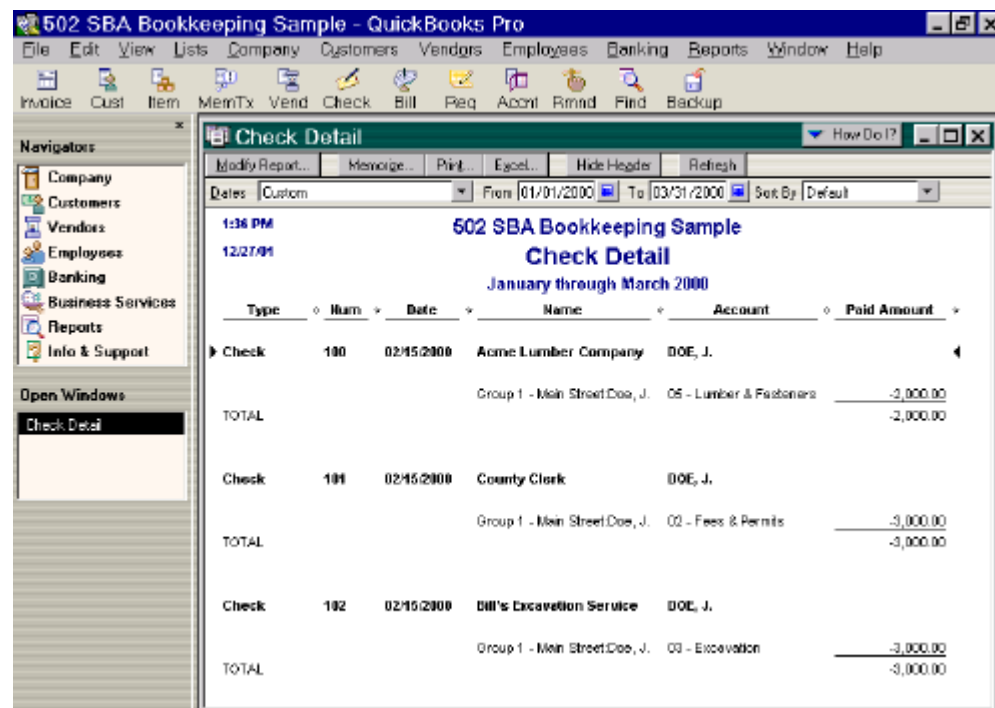
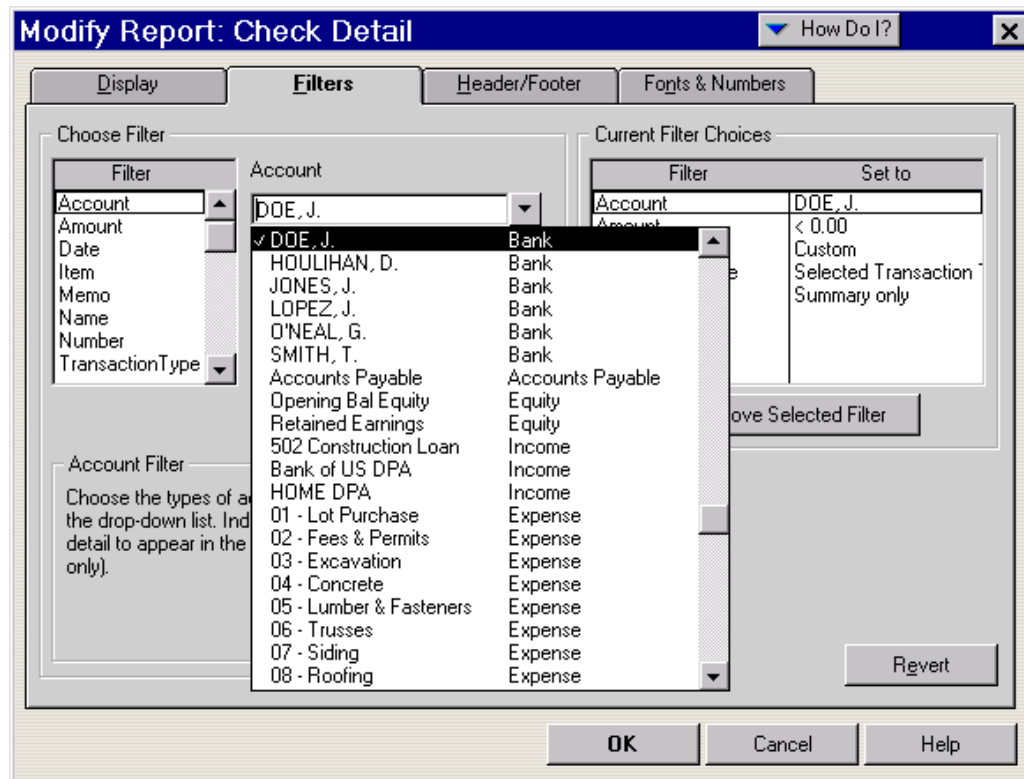
Page 1

OR



Go to **Reports**, then **Banking**, then **Check Detail**. Select the date range for the desired report and hit the “**Refresh**” button. Go to **Modify Report, Display**, then under **Columns**, uncheck any unwanted columns. While still in **Modify Report**, go to **Filters**, then **Account** and choose the individual bank

account to produce a detailed check register for an individual family's account.



Guide to Accounting for Individual Borrower 502 Loan Accounts

Account	Type	Balance Total	Description
DOE, J.	Bank	-1,000.00	Lot 3 - Main St.
HOULIHAN, D.	Bank	-2,000.00	LOT #5 - Main Street
JONES, J.	Bank	-3,000.00	Lot 2 - Main St.
LOPEZ, J.	Bank	-2,000.00	LOT #4 - Main Street
O'NEAL, G.	Bank	-2,000.00	LOT #6 - Main Street
SMITH, T.	Bank	7,000.00	Lot 1 - Main St.
Accounts Payable	Accounts Payable	3,000.00	
Opening Bal Equity	Equity	0.00	
Retained Earnings	Equity		Retained Earnings
502 Construction Loan	Income		
Bank of US DPA	Income		Down Payment Assistance Grant
HOME DPA	Income		
01 - Lot Purchase	Expense		
02 - Fees & Permits	Expense		
03 - Excavation	Expense		
04 - Concrete	Expense		
05 - Lumber & Fasteners	Expense		
06 - Trusses	Expense		
07 - Siding	Expense		
08 - Roofing	Expense		
09 - Plumbing	Expense		
10 - Electric	Expense		
11 - HVAC	Expense		
12 - Insulation	Expense		
13 - Drywall	Expense		
14 - Exterior Doors	Expense		
15 - Garage Doors	Expense		
16 - Interior Doors & Trim	Expense		
17 - Windows	Expense		
18 - Paint	Expense		
19 - Floor Cover	Expense		
20 - Appliances	Expense		
21 - Counter Tops	Expense		
22 - Cabinets	Expense		
23 - Irrigation	Expense		
24 - Ground Cover/Plants	Expense		
25 - Gutters	Expense		
26 - Allowances	Expense		
27 - Overhead	Expense		
28 - Contingency	Expense		
29 - Closing Fees	Expense		

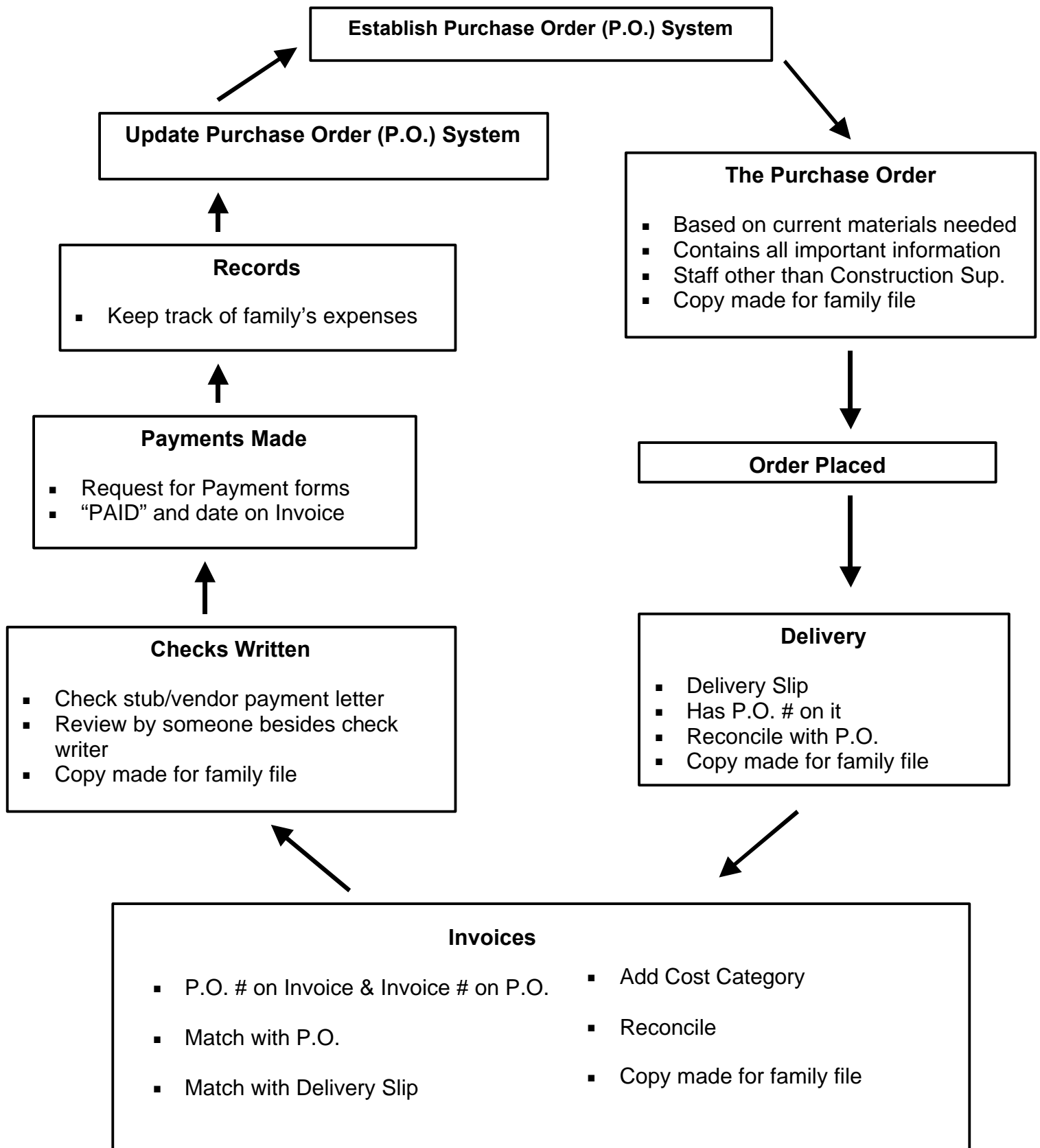
Appendix II

Federal Forms

To obtain a copy of federal forms RD 1924-6 and RD 1924-7, go to the following websites:

- Form RD 1924-6 “Construction Contract”:
<http://rdinit.usda.gov/regs/forms/1924-06.pdf>
- Form RD 1924-7 “Contract Change Order:
<http://rdinit.usda.gov/regs/forms/1924-07.pdf>

Appendix III



Federal Forms

To obtain a copy of federal form RD 1924-9, go to the following website:

- Form RD 1924-9 “Certificate of Contractor’s Release”:
<http://rdinit.usda.gov/regs/formtoc.html#1900>

Federal Forms

To obtain a copy of federal form RD1924-10, go to the following website:

Form RD1924-10 “Release by Claimants”:

<http://rdinit.usda.gov/regs/formtoc.html#1900>

Appendix VIII

PROPERTY TRANSFER/DISPOSAL FORM

GROUP NAME: _____

DATE: _____

PROPERTY #: _____

PROPERTY TRANSFERRED FROM: _____

PROPERTY TRANSFERRED TO: _____

DESCRIPTION: _____

CONDITION: _____

REASON FOR TRANSFER: _____

Do not dispose of any property without clearing it with the property department and your program director.

Appendix IX

RD Instruction 1944-I

1944.411 Conditions for approving a grant.

A grant may be approved for an eligible applicant when the conditions in the letter of conditions are met and the following conditions are present:

- (a) The applicant has or can hire, or contract directly or indirectly with, qualified people to carry out its responsibilities in administering the grant.
- (b) The applicant has met all of the conditions listed in §1944.410(e) of this subpart.
- (c) The grantee furnishes a signed statement that it complies with the requirements of the Departmental Regulations found in 7 CFR Part 3015 and Part 3016.
- (d) A resolution has been adopted by the board of directors which authorizes the appropriate officer to execute Exhibit A of this subpart and Form RD 400-4, "Assurance Agreement." (Revised 04-24-91, PN 163.)
- (e) The grantee has fidelity bonding as covered in 7 CFR Part 3015 if a nonprofit organization or, if a State or local government, to the extent required in 7 CFR Part 3016.
- (f) The grantee has agreed by completing SF-424B, "Assurances-Non Construction Programs," that it will establish a recordkeeping system that is certifiable by a certified public accountant that it adequately meets the Agreement. (Revised 04-24-91, PN 163.)**
- (g) The grantee has established an interest bearing checking account on which at least two bonded officials will sign all checks issued and understands that interest earned in excess of \$250.00 annually must be submitted to FmHA quarterly. (The use of minority depository institutions is encouraged.)
- (h) The grantee has developed an agreement to be executed by the grantee and the self-help participants which clearly sets forth what is expected of each and has incorporated Exhibit B-2 of this subpart which clearly shows what work is expected of the participating family.

Appendix X

Custodial Bill-paying

As described in this manual, the traditional method of accounting for individual family 502 loan activity starts with the opening of an individual supervised bank account (SBA) for each family. The SBA is described as a checking account established for each participating family that requires both USDA Rural Development (RD) and the family cosign all checks. All loan draw-downs are deposited into this account and all vendors are paid directly from this account. In a group of 10 families, a vendor may receive as many as 10 checks in payment of an invoice that represents supplies or services provided to build multiple homes.

Some organizations that receive 523 TA funds to administer a Mutual Self-Help program use an alternative method of accounting for their participating families' 502 loans – custodial bill-paying. As in the traditional method of bill-paying, SBA's are established for each participating family and checks drawn on these accounts require signatures from both USDA RD and the families. The primary differences are in the number of checks required to be written from these accounts and the number of checks received by the vendor. In the custodial bill-paying system, the 523 TA organizations maintain a separate custodial bank account. Throughout the construction process, some of each family's individual 502 loan funds are deposited into this bank account and held in trust for the families until the funds are disbursed to various vendors.

The custodial bill-paying process works in the following way: On a regular basis (weekly, monthly or semi-monthly), invoices for construction expenses are tabulated for each family. One check from each family is made payable to the 523 grantee in the appropriate amount to cover payment of these invoices. These checks are deposited into the custodial bank account. One check is then made out to each vendor from the custodial bank account in payment of the appropriate families' costs.

As indicated above, the advantage of the custodial method of bill-paying is a major reduction in the number of checks that must be written and co-signed for each family. For a grantee with more than one group building at a time, this can represent a major savings in time for both the 523 grantee that must prepare all of the checks and the USDA RD staff who must sign all of the checks. (See charts, Attachment XII.)

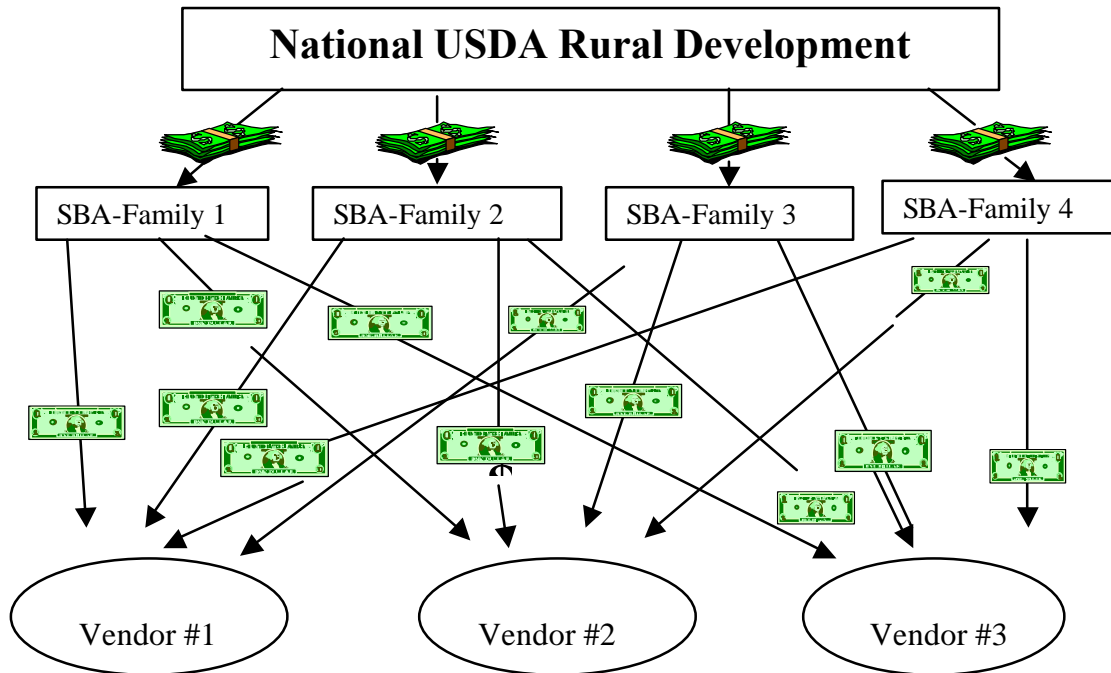
There are a number of issues that must be considered when using the custodial method of bill-paying:

1. USDA-RD must authorize the use of the custodial bill-paying method. (USDA Rural Development Instruction part 1924, Subpart A, Section .6 (c) describes the requirements that the 523 TA grantee must meet in order for 502 checks to be made payable directly to the TA grantee.) (See Appendix XIII)
2. Accounting for each family's construction costs will be more complicated than simply tracking loan draws and checks made out to individual vendors in each SBA. In the custodial method of bill-paying, all of the checks from the SBA's are made payable to the 523 grantee to be deposited into the custodial bank account. Vendor information will have to be tracked in a different way than simply by "Payee" since the vendors are all paid from the 502 funds held in trust in the custodial bank account, not from the SBA's. Some organizations have resolved this issue by tracking the disbursements to vendors as if they were paid out of the SBA's and simply entering an adjusting journal entry into the corporate accounting system used to track the custodial bank account activity. Using this method, budget comparison reports by family can be produced using the accounting software used to track the SBA's.
3. The custodial bank account should be established under the Federal Tax ID number of the 523 TA grantee and included in the organization's financial reports. However, the deposits made into this account and the disbursements made from this account should not be recorded as income and expenses for the organization since these funds do not belong to the organization. The funds are simply held in trust for the participating Mutual Self-Help families. The transactions should be reflected as balance sheet activity using the bank account as an asset and a liability account to offset the asset. In addition, the 523 grantee must set up the organization's corporate accounting system to track the funds in the custodial account by participating family.
4. The 523 grantee should establish internal controls for the 502 construction funds that are deposited into the custodial bank account. One of these controls should include the selection of appropriate check signers for disbursements made from this bank account. Staff responsible for preparing disbursements from the SBA's should not be signers on the custodial bank account.

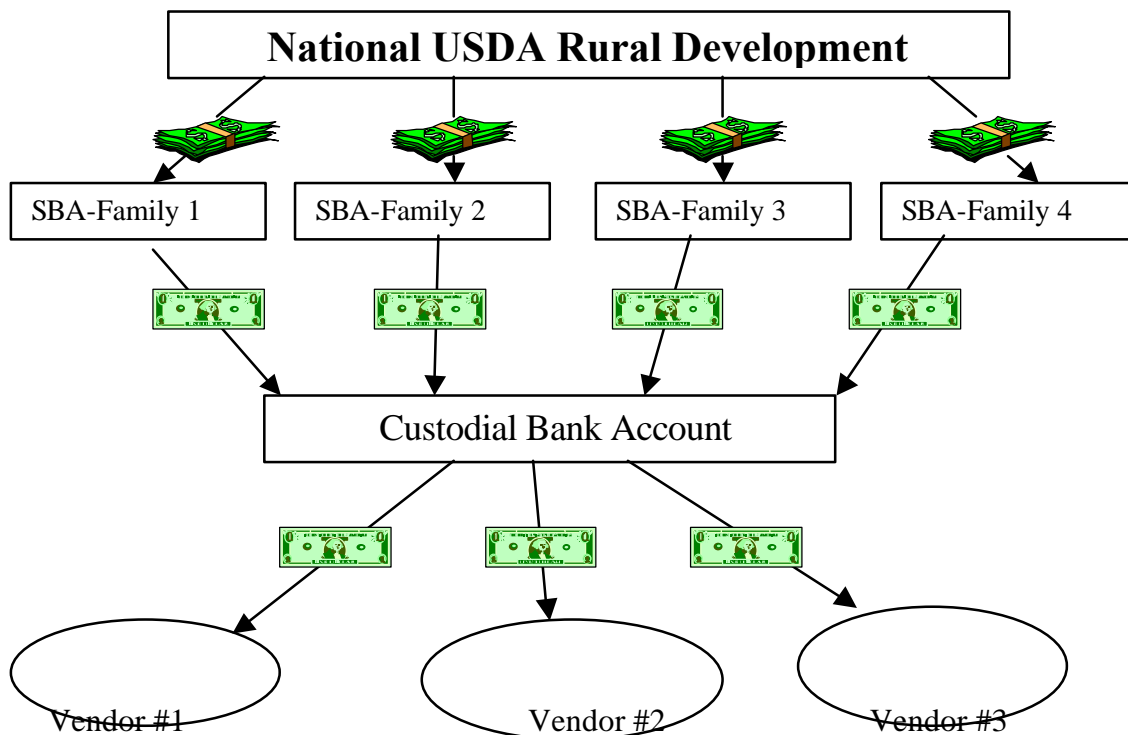
5. In the traditional method of bill-paying the SBA's are established in the participating families' names and Social Security numbers. Funds deposited into the SBA's do not exceed \$100,000. As a result, they are fully protected by Federal Deposit Insurance Commission (FDIC). In the custodial bill paying method, the balance in the custodial bank account can exceed \$100,000 at times. The 523 grantee should request a letter of collateralization from the bank to protect any funds in excess of \$100,000 in this account. (See USDA Rural Development Instruction Part 1902 subpart A Section .7 – "Pledging collateral for deposit of funds in supervised bank account").
6. The custodial account should be set up as non-interest bearing. The benefit of interest earned on these funds is outweighed by the difficulty of determining which family's funds earned the interest. Interest earned is not income to the 523 grantee since the funds in the account belong to the participating families.

Appendix XI

Traditional Bill Paying Method



Custodial Bill Paying Method



Appendix XII

RD Instruction 1924-A

(c) Mutual self-help method. The mutual self-help method is performance of work by a group of families by mutual labor under the direction of a construction supervisor, as described in subpart A of part 1944 of this chapter. The ways of doing the work, buying materials, and contracting for special services are like those used for the borrower method. Materials can be bought jointly by the group of families, but payments will be made individually by each family. In the case of RH loans to families being assisted by Self-Help Technical Assistance (TA) grants in accordance with subpart I of part 1944 of this chapter, the County Supervisor may countersign checks for materials and necessary contract work made payable directly to the TA grantee, provided the District Director determines that: (Revised 10-27-95, SPECIAL PN.)

- (1) The grantee acts in the same capacity as a construction manager in the group Purchase of material and services.
- (2) The grantee has an adequate bookkeeping system approved by the District Director to assure that funds in each RH account are properly distributed and maintained.
- (3) The grantee receives no compensation in the way of profit or overhead for this service and all discounts and rebates received in connection with the purchase of materials or services are passed on to the participating families.
- (4) The grantee has a record-keeping system which shows that the costs of the materials and services were prorated to each borrower's account in relation to the actual material and service used by each borrower.

Appendix XIII

CHECK NUMBER:

CHECK AMOUNT:

VENDOR:

DATE:

PAYMENT OF THE FOLLOWING DESCRIBED INVOICE OR CLAIMS IS HEREBY REQUESTED:

P.O. #	ACCOUNT #.	DESCRIPTION	DEBIT	CREDIT

PAYMENT WILL NOT BE MADE UNLESS PROPER SUPPORTING DOCUMENTS ARE ATTACHED

CERTIFICATION: I hereby certify that all the information furnished on this form is true and correct

to the best of my knowledge and belief and is furnished in good faith.

REQUESTED BY:

APPROVED BY:

Appendix XIV

Guide to Accounting for Individual Borrower 502 Loan Accounts

FAMILY: John Jane Doe

Location:

3 bedrooms / 2 baths

GROUP: Martin G PLAN:

		INVOICE OR		DEPOSIT OR CHECK	BANK	Available LOAN	CATEGORY	CATEGORY 1 Fee		CATEGORY 2 Lead Price	
DATE	VENDOR	CHECK #	P.O. #	AMOUNT	BALANCE	BALANCE	NUMBER	ENTRY	BALANCE	ENTRY	BALANCE
BUDGET AMOUNTS FOR EACH CATEGORY						46,711.61	ALL		1,595.00		600.00
06/11/98	First Draw				16,040.00	46,711.61			1,595.00		600.00
	Closing Statement	attorney			16,040.00	46,711.61			1,595.00		600.00
06/18/98	D & Dirt Movers	1	3039	(497.55)	15,542.45	46,214.06	2		1,595.00	497.55	102.45
06/18/98	MS. Non-Profit	2	3045	(915.00)	14,627.45	45,299.06	1	915.00	680.00		102.45
06/25/98	Patrick Howell	3	3041	(933.33)	13,694.12	44,365.73	3		680.00		102.45
06/26/98	Taylor Ready Mix	4	3089	(3,183.25)	10,510.87	41,182.48	4		680.00		102.45
06/26/98	Joseph Lack	5	3040	(4,319.20)	6,191.67	36,863.28	4		680.00		102.45
07/09/98	Charles Holmes	6	3042	(1,364.25)	4,827.42	35,499.03	5		680.00		102.45
07/07/98	Charles Holmes	7	3090	(1,364.25)	3,463.17	34,134.78	5		680.00		102.45
07/30/98	Patrick Howell	8	3087	(933.33)	2,529.84	33,201.45	3		680.00		102.45
07/30/98	McCraw Pest Control	9	3091	(280.14)	2,249.70	32,921.31	4		680.00		102.45
07/31/98	Charles Holmes	10	3983	(1,364.25)	885.45	31,557.06	5		680.00		102.45
08/17/98	Deposit			15,000.00	15,885.45	31,557.06			680.00		102.45
TOTALS								915.00		497.55	

Appendix XV

Website Addresses for USDA Instructions and Forms

Appendix III. USDA Form FMHA 1924-6 (Construction Contract) and Form RD 1924-7 (Contract Change Order)

<http://rdinit.usda.gov/regs/forms/1924-06.pdf>

<http://rdinit.usda.gov/regs/forms/1924-07.pdf>

Appendix VI. USDA Form RD 402-2 (Statement of Deposits and Withdrawals)

<http://rdinit.usda.gov/regs/forms/0402-02.pdf>

Appendix VII. USDA Form RD 1924-9 (Lien Waiver)

<http://rdinit.usda.gov/regs/forms/1924-09.pdf>

Appendix VIII. USDA Form RD 1924-10 (Release by Claimants)

<http://rdinit.usda.gov/regs/forms/1924-10.pdf>

Appendix X. USDA RD Instruction 1944-I Section 1944.411 (Conditions for Approving a Grant)

<http://rdinit.usda.gov/regs/regs/doc/1944i.doc>

Appendix XIII. USDA RD Instruction 1924-A 1924.6(c) Mutual self-help method.

<http://rdinit.usda.gov/regs/regs/doc/1924a.doc>

Appendix XVI