



RCAC

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502 + 504 = Accurate Accounting of the Family Builder Loan/Rehab Funds

Wednesday 3/12/25

10:15 AM

National Self-Help Conference

Orlando, FL

Your Instructors Today...

**Samantha Bowley,
Facilitator**

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Moderator**

Rural Development
Specialist

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Housekeeping

- Cell phones = set to SILENT
- Participation = encouraged
- Restrooms, hydration, stretch, do your thing, just minimize distraction please
- Attendance: sign in sheet, sign it!
- Evaluations: on your app, let us know your thoughts!



502 Fund Management Financial Goals!

Fund Management Transparency

- RD & the loan recipients must be provided regular and ***accurate financial reporting*** on the loan funds.
- As custodian, you are responsible for ***ensuring transparency*** as to the loan balance and the actual and the anticipated expenses incurred throughout the build process.



Let's Start with the Foundation

What am I Custodian Of? Or What am I Supervising?

- Qualified **owner/builders** receive a direct 502 loan for construction; that loan will convert to a mortgage when the build is complete (or 504 if Rehab)
- 502 funds belong ONLY to the individual or **family/borrowers** that applied and were approved (not to the grantee) for the loan
- Grantee has some *CUSTODIAL* or *SUPERVISED* fund oversight responsibilities



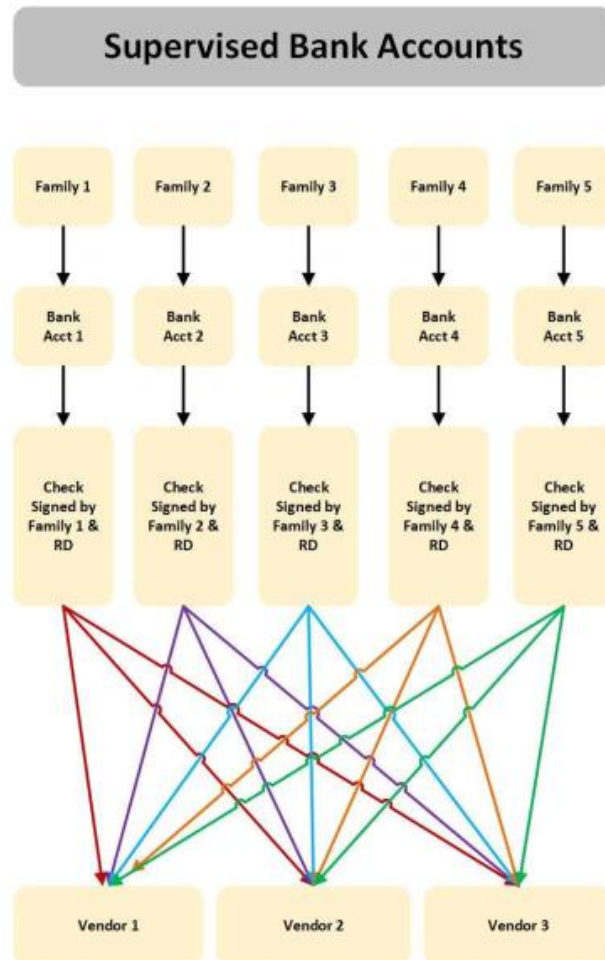
Objectives for Today

Part 1 of Today's Training:
...building blocks ***How to Set Up & Structure Your Custodial Accounts***



Part 2 of Today's Training: How to Manage the Draws, What to Submit, the Reconciliation, a few other requirements...fund management

2 Methods of 502/504 Loan Fund Responsibility



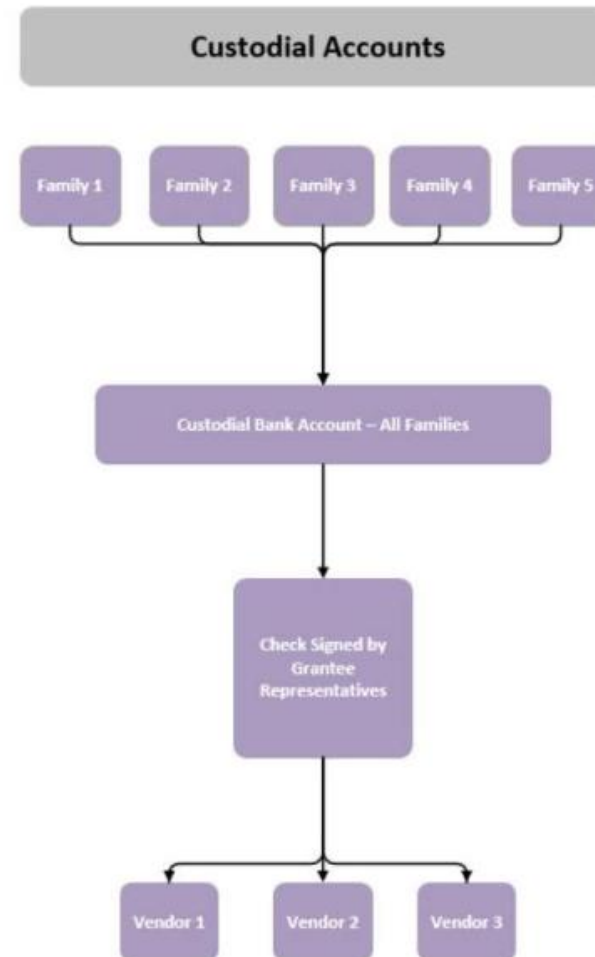
SUPERVISED BANK ACCOUNTS

- USDA RD manages the individual loan borrower bank account
 - Funded with portions of the 502 loan fund to coincide with construction costs
- USDA RD and the grantee collaborate to generate, sign and distribute checks per family loan to vendors and suppliers
 - Administrative burden on RD
 - Delayed vendor payments as signatures are secured

2 Methods of 502/504 Loan Fund Responsibility

CUSTODIAL ACCOUNTS

- The grantee draws the loan funds from USDA RD on behalf of the owner/builders
- The grantee is responsible for managing the collective loan funds for all owner/builders in a local bank single checking account
- The grantee pays vendors directly, one check per service/material
- The grantee reconciles the account and ledgers – keeps families up to date on expenses, budgets, and fund balances



Custodial Funds - Show Me the Money!

THE BANK ACCOUNT

- Money is held in trust by the grantee for the borrowers
- Grantee will open and manage a separate bank account on behalf of the family builders
 - Grantee's Tax ID
 - Non-interest bearing
 - ***Looking ahead – a bank account per build group***
- Internal control Alert! *two check signatures!*



Custodial Funds - Show Me the Money!

ONE OF THESE THINGS IS
NOT LIKE THE OTHERS



THE 502 FUNDS & THE GRANTEE

- In/out or absent from grantee's BALANCE SHEET
 - Restricted asset/liability
 - Owner/Builder funds should not be a part of your organization's P&L (income/expense)
 - due to major differences and the occasional similarities...

Custodial Funds – Accounting for the Details

THE ACCOUNTING SYSTEM

Maintain a separate “company” for your 502 Custodial Accounts/Build Groups – let’s explore why...

[New Company...](#)

[New Company from Existing Company File...](#)

[Open or Restore Company...](#)

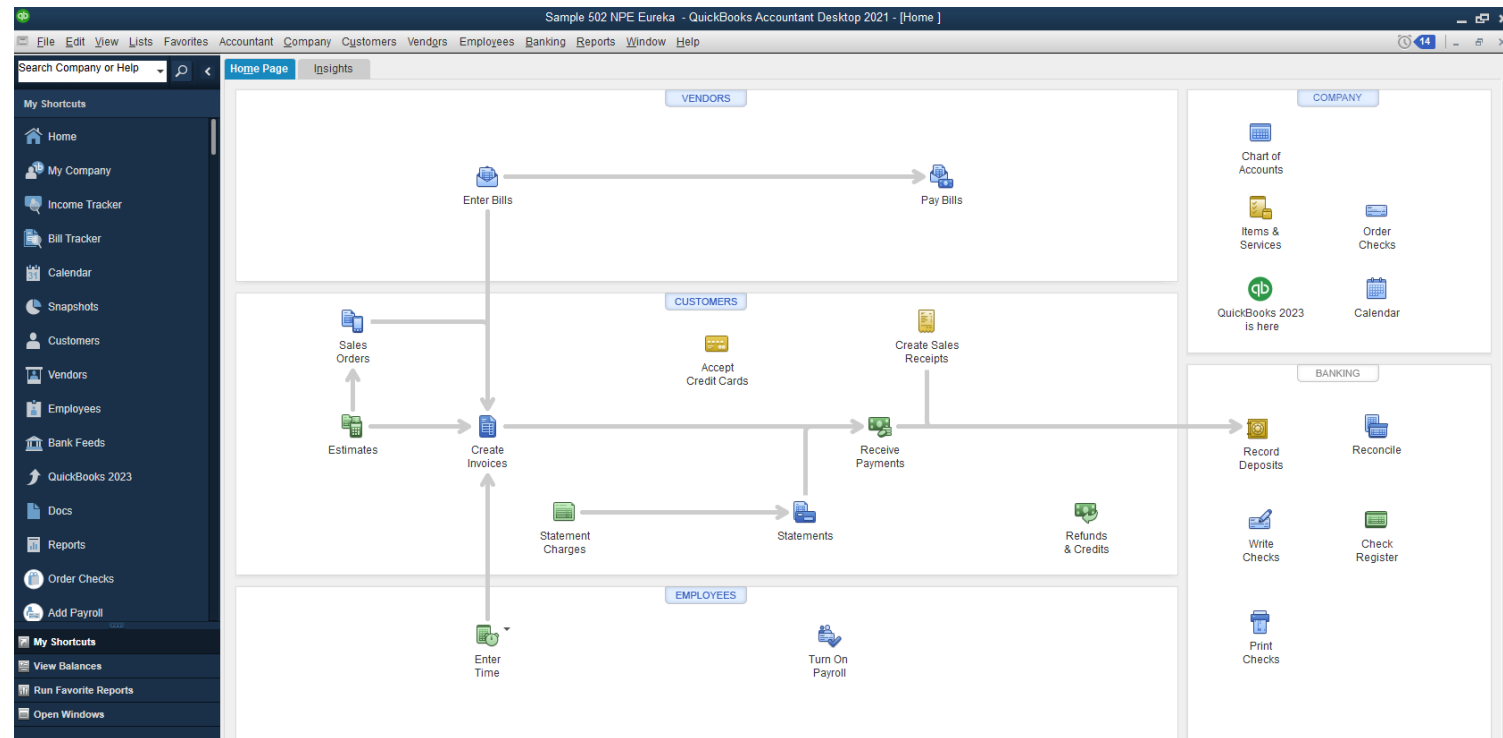
[Open Previous Company](#)

[Open Second Company](#)

[Back Up Company](#)

[Create Copy...](#)

[Close Company](#)



Custodial Funds – Accounting for the Details

THE ACCOUNTING SYSTEM

- What's in the **Chart of Accounts** for the 502 Custodial Account?
 - Lumber package
 - Excavation
 - Plumbing Contractor
 - Drywall
 - Sewer Tap Fee
- What's in the **Chart of Accounts** for your nonprofit organization?
 - Wages
 - Fringe
 - Payroll Taxes
 - Conference Travel
 - Marketing
 - Insurance
 - Audit



techsoup.org

Construction Budget for the Family Builders



		Carter, John (Galaxy 1)			
		Jan '21 - Dec 22	Budget	\$ Over Budget	% of Budget
Income					
4000 · 502 Loan Draws	62,500.00				
Total Income	62,500.00				
Expense					
6207 · Building Permit Fee	900.00	1,000.00	-100.00	90.0%	
6208 · Sewer Tap Fee	0.00	5,900.00	-5,900.00	0.0%	
6209 · Water Tap Fee	0.00	7,500.00	-7,500.00	0.0%	
6210 · Lot	51,000.00	51,000.00	0.00	100.0%	
6212 · House Plan	650.00	650.00	0.00	100.0%	
6213 · Architect	0.00	1,200.00	-1,200.00	0.0%	
6214 · Engineering	800.00	800.00	0.00	100.0%	
6220 · Temp Utilities	0.00	100.00	-100.00	0.0%	
6225 · Trash & Toilet Service	70.00	400.00	-330.00	17.5%	
6230 · Excavation	2,900.00	2,974.00	-74.00	97.51%	
6240 · Concrete	0.00	11,525.00	-11,525.00	0.0%	
6245 · Rough Carpentry	0.00	21,797.00	-21,797.00	0.0%	
6250 · HVAC	0.00	8,190.00	-8,190.00	0.0%	
6253 · Roofing	0.00	7,725.00	-7,725.00	0.0%	
6254 · Plumbing	0.00	10,422.00	-10,422.00	0.0%	
6273 · Drywall	0.00	4,251.00	-4,251.00	0.0%	
6275 · Interior Millworks	0.00	2,668.00	-2,668.00	0.0%	
6279 · Paint	0.00	1,000.00	-1,000.00	0.0%	
6280 · Flooring	0.00	4,159.00	-4,159.00	0.0%	
6283 · Cabinets	0.00	4,406.00	-4,406.00	0.0%	
6286 · Countertops	0.00	1,441.00	-1,441.00	0.0%	
6292 · Garage Door	0.00	1,078.00	-1,078.00	0.0%	
6293 · Gutters	0.00	1,575.00	-1,575.00	0.0%	
6295 · Landscaping	0.00	2,000.00	-2,000.00	0.0%	
Total Expense	56,320.00	175,330.75	-119,010.75	32.12%	
Net Income	6,180.00	-175,330.75	181,510.75	-3.53%	

Custodial Funds – When to Draw?

THE 502 DRAW SCHEDULE

State USDA RD office has schedule preferences

- Negotiate with them to ensure timely draws that allow you to pay vendors promptly (*monthly request for advance 1944.417(a)*)
- Timeline predetermined (e.g., a draw once a quarter, once a month, etc.) or may be flexible based upon construction purchase needs
- Note: once drawn interest (& risk!) is accruing

Typically, 2 Draw Methods:

- Advance/Construction Progress Draws: Grantee presents draw request based upon the construction budget and/or the build progress;
- Cost-Reimbursement Draws: Grantee assumes construction costs up front, and then presents the draw request for reimbursement



Custodial Funds – Accounting for the Details

THE ACCOUNTING SYSTEM

- Establish and keep up-to-date written policies & procedures for account management
 - *specifically for the custodial account*
 - *how/when you draw*
 - *how/when you do financial reviews with the family*
 - *who among grantee staff prepares what financially speaking (separation of duties)*



Read Aloud, Answer Together QUIZ



Read Aloud, Answer Together QUIZ



The custodial bank account should be interest bearing? T/F

False, the checking account should not be interest bearing. Allocating interest evenly between the families that share the custodial account is more cumbersome than the value of the interest earned.

Read Aloud, Answer Together QUIZ



How many signatures are required on custodial checks?

Two, just like the 523 Technical Assistance grant! Internal Controls are great!

Read Aloud, Answer Together QUIZ



The custodial accounting system requires its own **(?choose the best missing term?)** separate from the organization's records.

Computer

Chart of Accounts

Bookkeeper

Financial Software

Read Aloud, Answer Together QUIZ



The custodial funds must not be recognized on the grantee's financial statements. T/F

False, the funds do not belong to the grantee that's true – however, with fiscal oversight, *the funds may be recognized as a restricted asset with an equal offset liability in the organization's financials*

Read Aloud, Answer Together QUIZ



The grantee custodian must regularly supply each builder family accurate and timely information on their 502 loan construction expenses and draws via the **(?choose the best missing term?)** report.

Consumer Spending
Statement of Cash Flows

Balance Sheet
Budget to Actual

Read Aloud, Answer Together QUIZ



Written policies and procedures must be developed and maintained by the grantee describing the detailed processes of custodial management of the 502 loan funds. T/F

True, just plain true!

Custodial Funds – You Get a Ledger...& You Get a Ledger...

ACCOUNT FOR EACH OWNER/BUILDER'S INDIVIDUAL CONSTRUCTION COSTS

- Costs per family must be accounted for within the build group 'company'
 - Based on construction invoices, PO's, cost allocation for shared project costs, etc.
 - Pro-rated calculation must be documented on each invoice showing cost distribution
 - Refunds are allocated to individual family ledgers as appropriate



Loan Fund Management: Doing the Accounting Stuff

THE ACCOUNTING SYSTEM

- Enter BTA data for each individual family

Bill Received

Bill

VENDOR: Vulcan Engineering DATE: 06/14/2021

ADDRESS: Vulcan Engineering REF. NO. AMOUNT DUE: 6,400.00

TERMS: PAID BILL DUE: 06/24/2021

MEMO: Engineering Expenses

Expenses	\$6,400.00	Items	\$0.00
ACCOUNT	AMOUNT	MEMO	CUSTOMER-JOB
6214 - Engineering	800.00	Engineering Expenses-John Carter	Galaxy 1:Carter, John
6214 - Engineering	800.00	Engineering Expenses-John Kirk	Galaxy 1:Kirk, John T.
6214 - Engineering	800.00	Engineering Expenses-Leia Princess	Galaxy 1:Princess, Leia
6214 - Engineering	800.00	Engineering Expenses-Lilly Skywalker	Galaxy 1:Skywalker, Lilly
6214 - Engineering	800.00	Engineering Expenses-John Spock	Galaxy 1:Spock, John
6214 - Engineering	800.00	Engineering Expenses-Chloe Stark	Galaxy 1:Stark, Chloe
6214 - Engineering	800.00	Engineering Expenses-Helen G. Wells	Galaxy 1:Wells, Helen G.
6214 - Engineering	800.00	Engineering Expenses-Hugh Wolverine	Galaxy 1:Wolverine, Hugh

New Customer & Job New Transactions

Customers & Jobs Transactions

Active Customers

NAME	BALANCE T.	ATTACH
♦ FHLB	0.00	
♦ Galaxy 1	0.00	
♦ Carter, John	0.00	
♦ Kirk, John T.	0.00	
♦ Princess, Leia	0.00	
♦ Skywalker, Lilly	0.00	
♦ Spock, John	0.00	
♦ Stark, Chloe	0.00	
♦ Wells, Helen G.	0.00	
♦ Wolverine, Hugh	0.00	
♦ Galaxy 2	0.00	
♦ Mandalorian, The	0.00	
USDARD	0.00	

Loan Fund Management: Doing the Accounting Stuff

VENDOR PAYMENTS



- The vendor payment schedule is determined by the grantee
 - Weekly, bi-weekly, monthly
 - Timely payments = Happy & Hard-Working Contractors
- Vendors receive one check from the grantee's custodial account for build group work

Custodial Funds – Closing, Escrow, The First DRAW

you always remember your

FIRST

- Estimate the amount needed to close:
 - Appraisal fees
 - Lot Purchase
 - Closing Fees
- And the amount needed to begin construction:
 - Start earthwork
 - Foundation
- Include all the fiscal details in your accounting:
 - Record the full construction budget
 - Journal Entries
 - Enter all the escrow details

THE DRAW REQUEST: Pieces & Parts

THE DRAW REQUEST

should contain the following:

DRAW SUMMARY COVERSHEET

*actual costs, PO's/estimate
amounts, narrative, total draw
amount, signatures*

BACK UP

*copies of invoices, PO's,
Estimates*

BUDGET TO ACTUAL

*current period expenses, total
expenses to date & loan
balance*

RECONCILIATION

*of previous advances to actual
costs*

THE DRAW: Summary Cover Sheet

DRAW SUMMARY COVERSHEET

*actual costs, PO's/estimate
amounts, narrative, total draw
amount, signatures*

1. Itemized actual costs to be paid, and PO's or Estimates
2. Grantee's Signature and Loan Recipients' Signature
3. Amount of the Draw Request, along with total drawn amount to date and balance of loan funds remaining
4. Narrative, tell the story that relates to the draw

THE DRAW: Summary Cover Sheet

SAMPLE

Construction Draw Request

May 3, 2020

Draw Request #2

Grantee's Name: *Self-Helper*
 Group #: 15
 Borrowers Name: *Builder Person*
 Property Address: *711 Sunshine Lane (site#2)*
 Loan No: 123456

Construction Draw Request

May 3, 2020

Draw Request #2

Grantee's Name: *Self-Helper*
 Group #: 15
 Borrowers Name: *Builder Person*
 Property Address: *711 Sunshine Lane (site#2)*
 Loan No: 123456

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

Construction Narrative:

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

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

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

Borrower Signature/Date

Grantee Signature/Date

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



THE DRAW: I Got Your Back-Up

BACK UP

*copies of invoices, PO's,
Estimates*

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

1. Copies of each individual invoice the family is approving for payment
2. Copies of PO's or Estimates
3. Show the allocation work of cost per family
4. Building and Code Inspection Reports, as applicable
5. Photos of construction progress

THE DRAW: I Got Your Back-Up

FREE PRINTABLE CONSTRUCTION INVOICE TEMPLATE

YOUR LOGO

Company Name
123 Main Street
Hamlet, OH 44416
(321) 456-7890
Email Address

DATE OF INVOICE: 02/15/20XX
INVOICE NO.: 10001

DATE BEGINNING: 01/15/20XX
DATE ENDING: 02/15/20XX

PAYMENT DUE BY: 03/15/20XX

PAYABLE TO: Company Name / Account

CLIENT

ATTN: Name / Dept
Company Name
123 Main Street
Hamlet, OH 44416
(321) 456-7890
Email Address

*Equal split sites #1 & 2
to 16, 16.66*

QTY	MATERIAL	RATE	TOTAL	DESCRIPTION OF WORK
5	Marking of foundation layout at site	200.00	1,000.00	
4	Earth excavation up to the required depth by machine	150.00	600.00	
2	Earth excavation and leveling of soil by hand-operated tools	125.00	250.00	
15	Placing of PCC	78.00	1,170.00	
30	Placement of reinforcement steel	165.00	4,950.00	
34	Erection of concrete formworks for footings	230.00	7,820.00	
TOTAL MATERIALS		\$	15,790.00	
MISCELLANEOUS CHARGES				
Transportation of materials			430.00	
Consultations with architect			760.00	
TOTAL MISCELLANEOUS		\$	1,190.00	
CUSTOMER SIGNATURE		DATE		
		00/00/0000		
AUTHORIZED SIGNATURE		DATE		
		00/00/0000		

HOLM CUSTOM CONSTRUCTION
Building Your Dream
121 Main Street • 800-444-4444 • 419-444-4444 • www.holmcustom.com

INVOICE # ABCR
Date: 05/21/08

BILL TO:
John Abercrombie
Mona Fitch
120 Pine Street
Ashland OR 97520

For Work At Job Site:
Home
1234 Harney Street
Ashland OR 97520

Customer PO:
Felman, 1234

Terms:
Due On Receipt

Item	Status	Amount
Job Phase: Excavation	INVOICED	\$630.00
Job Phase: Foundation	INVOICED	\$1,800.00
Invoice Total:		\$2,430.00

All work is guaranteed to be as specified and to be performed in accordance with the drawings and specifications submitted, in a substantial and workmanlike manner.

JOB RECAP

Description	Amount	Notes
Original Estimate	\$130,398.01	
Deposit Received	\$1,800.00	
Allowance Variances:		
Cabinets	\$1,650.00	Allowance: \$5,610.13, Actual: \$7,260.13
Countertops	\$800.00	Allowance: \$1,200.00, Actual: \$2,000.00
Doors	\$50.00	Allowance: \$1,320.00, Actual: \$1,400.00
Floor Covering	\$75.00	Allowance: \$4,295.00, Actual: \$4,340.00
Windows	\$150.00	Allowance: \$8,506.00, Actual: \$8,656.00
Total Variance With Markups	\$2,755.00	Estimated: \$27,253.13, Actual: \$30,008.13
Change Orders	None	
Cost Adjustment	None	
Cost Adjustment	-\$8,003.00	Estimated: \$130,398.01, Actual: \$122,395.01
Draws (Invoices)		
05/30/06	\$2,730.00	
11/06/06	\$5,374.50	
11/07/06	\$13,350.50	

#2 only

Holbrook Construction

800 Dowfield Dr., Towles, OH 43084
www.holbrookconstruction.com
419-755-8040

Invoice

Bill To: John Rogers
jrogers@holbrook.com
760 Highland St., Towles, OH 43082

Invoice No: 7
Date: 04/08/2018
Terms: NET 30
Due Date: 05/08/2018

Description	Quantity	Rate	Amount
Killer vinyl 12 x 22 medium double sink	1	\$248.00	\$248.00
American Union kitchen cabinet	1	\$540.00	\$540.00
Tapsel	1	\$75.00	\$75.00
Part Subtotal			\$863.00

Description	Quantity	Rate	Amount
Project management	3 days	\$200.00	\$600.00
Others work	8 hours	\$200.00	\$1,600.00
Topsoil work evaluation	1 hour	\$75.00	\$75.00
Labor Subtotal			\$2,275.00

Pay Now

Balance Due \$2,978.54

Invoice # 7

*Equal split sites # 1 & 2
\$ 1,489.32 ea*

How does get more done.

SPOKANE WA, 99218
4719 (509)466-8991

4719 00002 56295 02/28/22 04:26 PM
SALE DASHTER TASHAMNA

010306011358 1/4 IN TRAD <A> 2.97
1/4 IN TRADITIONAL FLEXIBLE TILE SP 0.79
078477211785 3G NYL <A> 3.58
3G NYL MIDWAY DECORA WALLPLT 1.87
078477919088 5S PLATE <A> 1.87
1G 5ST BLANK WALLPLT

SUBTOTAL 8.92
SALES TAX 0.79
TOTAL \$9.61
XXXXXXXXXXXX1206 VISA 9.61
AUTH CODE: 2116RC/8027861 TA

4719 02/28/22 04:26 PM

4719 02 56295 02/28/2022 3963

RETURN POLICY DEFINITIONS
POLICY ID DAYS POLICY EXPIRES ON
A 1 90 05/29/2022

DID WE NAIL IT?
Take a short survey for a chance TO WIN
A \$5,000 HOME DEPOT GIFT CARD

Opine en español
www.homedepot.com/survey

User ID: HXY 117518 112901
PASSWORD: 29128 112799

Receipts must be dated within 14 days
of purchase. Receipts must be 18 or
older to enter sweepstakes. See rules on
receipts for details.



THE DRAW: I Got Your Back-Up



FREE PRINTABLE CONSTRUCTION INVOICE TEMPLATE

YOUR LOGO

INVOICE

Company Name
123 Main Street
Hamilton, OH 44416
(321) 456-7890
Email Address

CLIENT

ATTN: Name / Dept
Company Name
123 Main Street
Hamilton, OH 44416
(321) 456-7890
Email Address

*Equal part
sites #1 & 2
to 16, 16.1, 6.6*

DATE OF INVOICE	INVOICE NO.
02/15/20XX	10001
DATE OF WORK	
DATE BEGINNING	DATE ENDING
01/15/20XX	02/15/20XX
PAYMENT DUE BY:	03/15/20XX
PAYABLE TO:	Company Name / Account

QTY	MATERIAL	RATE	TOTAL
5	Marking of foundation layout at site	200.00	1,000.00
4	Earth excavation up to the required depth by machine	150.00	600.00
2	Earth excavation and leveling of soil by hand-operated tools	125.00	250.00
15	Placing of PCC	78.00	1,170.00
30	Placement of reinforcement steel	165.00	4,950.00
34	Erection of concrete formworks for footings	230.00	7,820.00
TOTAL MATERIALS		\$ 15,790.00	



MISCELLANEOUS CHARGES	
Transportation of materials	430.00
Consultations with architect	760.00
TOTAL MISCELLANEOUS	\$ 1,190.00

use by hand-operated tools			
Placing of PCC	35.0	60.00	2,100.00
Placement of reinforcement steel	76.0	60.00	4,560.00
Erection of concrete formworks for footings	53.0	60.00	3,180.00
TOTAL LABOR		\$ 14,140.00	

CUSTOMER SIGNATURE	DATE
	00/00/0000
AUTHORIZED SIGNATURE	DATE
	00/00/0000

TOTAL MATERIALS	\$ 15,790.00
TOTAL LABOR	\$ 14,140.00
TOTAL MISCELLANEOUS	\$ 1,190.00
SUBTOTAL	\$ 31,140.00
TAX RATE	3.80%
TOTAL TAX	\$ 1,183.32
TOTAL	\$ 32,323.32

For questions concerning this invoice, please contact Name, (321) 456-7890, Email Address

THE DRAW: I Got Your Back-Up



Best practice!

get a wet signature for each and every invoice from loan holder!



THE DRAW: Budget to Actual

BUDGET TO ACTUAL

*current period expenses, total
expenses to date & loan
balance*

Four columns:

1. Total current period expenditures
2. Total expenditures to date
3. Total Budget
4. Total Balance Remaining

THE DRAW: Budget to Actual

Sample Builder - Lot 22, Sample Landing Plot II

	CURRENT PERIOD EXP	TOTAL EXP TO DATE	BUDGET	BALANCE
Custodial Account				
CLIENT BANK ACCOUNTS		172,314.00	231,322.00	\$ 59,008.00
Borrower funds for construction				
USDA 502		126,761.00	185,769.00	\$ 59,008.00
HOMESTART FUNDS		-	-	\$ -
HOMEOWNER DOWN PAYMENT		45,553.00	45,553.00	\$ -
TOTAL FUNDING		172,314.00	231,322.00	\$ 59,008.00
Borrower Construction Budget				
BUILDING SITE		37,692.00	37,692.00	\$ -
CLOSING COSTS		4,600.00	4,600.00	\$ -
FOUNDATION		24,980.00	24,980.00	\$ -
CONTINGENCY		5,000.00	5,000.00	\$ -
PLANS & INSPECTIONS		3,450.00	3,450.00	\$ -
FRAMING/INSULATION/ROOFING		36,245.00	36,245.00	\$ -
TRASH REMOVAL/PORTABLE TOILET		910.00	1,100.00	\$ 190.00
ELECTRICAL	\$ 8,512.00	8,512.00	9,400.00	\$ 888.00
PLUMBING	\$ 26,915.00	26,915.00	29,550.00	\$ 2,635.00
UTILITY HOOKUPS/TEMPORARIES		6,010.00	6,010.00	\$ -
LANDSCAPING/HYDROSEEDING		-	1,500.00	\$ 1,500.00
DRYWALL		2,500.00	16,295.00	\$ 13,795.00
APPLIANCES		-	1,400.00	\$ 1,400.00
FLOOR & CABINETS		2,000.00	10,000.00	\$ 8,000.00
EXCAV/FINAL GRADE/LANDSCP		-	25,800.00	\$ 25,800.00
WELL		13,500.00	13,500.00	\$ -
FINISH ITEMS		-	4,800.00	\$ 4,800.00
TOTAL COST TO CONSTRUCT	\$ 35,427.00	172,314.00	231,322.00	\$ 59,008.00

THE DRAW: Budget to Actual

Remember! Best practice!

an informed family builder is a happy family builder!

- ***Timing of Budget to Actual Review: CONSISTENT schedule - biweekly, monthly, bi-monthly?***
 - ***Does not have to coincide with draw schedule***
- All the itemized detail of each expenditure, each pending expense, the loan balance, and a reconciliation of any advancement draws, confirm understanding!



THE DRAW: Reconciliation

RECONCILIATION

of previous advances to actual costs

1. Compare the draw amounts to the actual expenditure amounts
2. And compare that to DRAW advances

LOAN AMOUNT \$272,556

Builder Person
711 Sunshine Lane (site #2)

DRAW REQUEST RECONCILIATION

	1st Draw 1/1/19-3/31/20	2nd Draw 4/1/20-5/12/20	3rd Draw 5/13/20-8/31/20	4th Draw 9/1/20-12/31/20	5th Draw 1/1/21-3/31/21	6th Draw 4/1/21-6/30/21	7th Draw 7/1/21 - 8/31/21	8th Draw 9/1/21-9/30/21	Contingency 10/1/21-10/31/21	Total
Draws	\$ 132,640.00	\$ 20,090.59	\$ 32,927.54	\$ 31,965.75	\$ 22,540.00	\$ 23,698.30	\$ -	\$ 8,693.82	\$ -	\$ 272,556.00
Actual Expenses	\$ 130,477.87	\$ 20,090.59	\$ 38,380.04	\$ 37,614.87	\$ 19,807.16	\$ 16,069.45	\$ 3,559.77	\$ 695.90	\$ 5,860.35	\$ 272,556.00
Over/Under	\$ 2,162.13	\$ 2,162.13	\$ (3,290.37)	\$ (8,939.49)	\$ (6,206.65)	\$ 1,422.20	\$ (2,137.57)	\$ 5,860.35	\$ -	\$ -

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

Custodial Funds Planning for BTA Review

THE BTA Review Best Practices



Methods to bridge gap between office financials and construction site logistics

- Who is explaining the BTA?
Where at?

Custodial Funds – What's My Status?

LOAN FINANCIAL STATUS REPORTS TO FAMILIES

- Grantees must also review and provide copies to owner/builders of all checks paid to vendors
 - Bonus! Meetings can function as a valuable project management tool: for example, tie the budget review to fixture choices



Custodial Funds Planning for BTA Review

Best Practices



Hey, you guys!

Prior to Conversion, put Vendors on notice that final disbursements will be through the next 45 days...

Custodial Funds – The Leftovers



FUND BALANCE

- Remaining **fund balance** is typically applied as a reduction to the family's loan principal by USDA RD

Let's Put a Bow on this Thing! RECONCILE!

- **Reconcile the Custodial Account as a whole**
 - **Monthly Bank Reconciliation**
 - **Reconcile to the Draw totals to each draw**
 - **Each family's BTA for all expenses**
 - *& PO's, if any outstanding*
- **Open a new Checking Account for the Next Build Group**
 - *Reconcile the existing account to zero, retain the account for the next staggered build group*



Put Me In Coach!...I Want to Manage Some Custodial Funds!



...let's talk just a bit about the "requirements"

Minimum Custodial Accounting Requirements

Approval is at the discretion of RD State Office

1. Grantee should have successfully completed at least one previous grant cycle (*RD may waive this requirement, and often does*)
2. Grantee has a record-keeping system which shows that the cost of the materials and services were allocated to each borrower's account in relation to the actual material and service used by each borrower (*you have to do this anyway! 😊 Just use your BTA & your reconciliation sheet*)
3. Custodial Accounts maintained by the grantee on behalf of a Mutual Self-Help group with funds exceeding \$250,000 at any time must have acceptable collateral pledged with the Federal Reserve Bank in an amount not less than the excess as outlined in RD Instruction 1902-A §1902.7. (*hint: timeline of draws, can you ensure you will not exceed the \$250K balance?*)
4. In accordance with RD Instruction 1944-I §1944.422, audits of borrower's Section 502 or 504 loan funds are required. (*this is kind of a big deal...*)

A Reminder for the Grantee & for the Auditor

RD Instruction 1944-I §1944.422

...”Audits of the borrower loan funds will be required. The number of borrower accounts audited will be determined by the auditor. In incidences where it is difficult to determine the appropriate number of accounts to be audited, auditors should be authorized by the State Director to audit the lesser of 10 loans or 10 percent of total loans. Audits of the borrower funds do not necessarily need to be tested in the same manner as the organizational audit. Agreed Upon Procedures (AUPs) may be developed and used for the Section 502 or 504 loan funds in custodial accounts. At a minimum, an AUP engagement will include a review of the draw requests to ensure charges listed can be traced back to source documents and a reconciliation of the financial institution’s account record...”

Watch
Dog



Custodial Funds – Accounting for the Details

THE ACCOUNTING SYSTEM

- Establish and keep up-to-date written policies & procedures for account management
 - *specifically for the custodial account*
 - *how/when you draw*
 - *how/when you do financial reviews with the family*
 - *who among grantee staff prepares what financially speaking (separation of duties)*



Resources @ RCAC.org

SH Housing Handbooks

SH housing training guides

[Custodial Accounting Handbook for Mutual SH Grantees – February 2025](#)

[SH 502 Loan Guidebook – March 2024](#)

[SHARES Handbook – 2023](#)

[Orientation Handbook – April 2023 v2](#)

[Acquisition and Owner Occupied Rehabilitation Handbook – August 2023 v3](#)

[Board of Directors Governance Guide – 2023](#)

[Construction Supervisors Handbook – August 2023 v3](#)

[Feasibility Handbook – 2021](#)

[Financial Management Handbook for Federally Funded Organizations – 2024](#)

[Group Coordinator Handbook – August 2023 v3](#)

[Individual Borrower 502 Loan Accounts – December 2023 v3](#)

So many guidebooks, so little time...

Read Aloud, Answer Together QUIZ



Read Aloud, Answer Together QUIZ



Reviewing the Budget to Actual report with the builder families must coincide with the draw schedule. T/F

False, your draw schedule may only be 4 or 5 total draws during construction, but as a recommended best practice, you may want to meet with your builder families once or month, or every other week to review financials.

Read Aloud, Answer Together QUIZ



Timely payments make for happy vendors! T/F

True, yes, this is an opinion-based question, but we can likely all agree that it is true!

Negotiate your draw schedule to ensure prompt payments to your vendors, *but minimize unnecessary overages, as once drawn the funds will start to accrue interest for your builder families!*

Read Aloud, Answer Together QUIZ



Grantees are required to provide each builder family with a complete record of all construction related paperwork at the conclusion of a build, some examples include:

Vendor Check Payment Copies

Lein Releases

Warranties

Color Wheel of Complimentary Colors

Home Addresses of Contractors

Not limited to these examples – any and all documentation relating to the home’s construction must be provided by the grantee to the owner builder families at the conclusion of the build.

Read Aloud, Answer Together QUIZ



How many 502 loan files is your auditor required to review during the annual audit?

Auditor's choice

Lesser of 10 loan files or 10% of the build group's total loan files

15% of the build group's total loan files
5 loan files

Read Aloud, Answer Together QUIZ



Choose the statements that ARE minimum Custodial Accounting requirements:

Audits of the borrower's Section 502 loan funds are required.

The build group must consist of a minimum of 12 families.

Grantee must have been in operation for at least five years.

Must have a record-keeping system which shows the cost of the materials and services allocated to each borrower's account.

Grantee should have successfully completed at least one previous grant cycle.

Grantee must retain sufficient assets to cover all construction costs up front and administer the custodial account on a cost-reimbursement basis.

Custodial Accounts with funds exceeding \$250,000 at any time must have acceptable collateral pledged with the Federal Reserve Bank in an amount not less than the excess.

Read Aloud, Answer Together QUIZ



Any fund balance left in the custodial 502 total loan amount should be applied to reduce the family's loan principal. T/F

True, Best practice is to return funds to RD to reduce the mortgage principal and convert the completed construction loan to mortgage for the families.

While permission from RD, can be sought to manage purchases or projects after construction is completed, with leftover funds, there must be agreement by the group (sometimes a challenge to secure), project management by the grantee without TA payment (the build is complete, and the TA grant is complete as well) and weather or supply issues can delay work, extending the project and delaying conversion.

Questions / Discussion



Session Evaluation



Don't Forget the Eval in Your App!