QuickBooks®

Community Land Trust Accounting

This accounting procedures manual for Community Land Trusts was prepared for the Community Land Trust Alliance of the San Juan Islands with grant support from Impact Capital.

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Chart of Accounts

This Chart of Accounts is a guideline for each CLT. Specific accounts for a particular CLT may vary from these but should follow as closely as possible.

Accounts that are indented are sub-accounts.

	Assets	**Type**
1000 - 1099	*Bank Accounts - range*	Bank
1200 - 1299	*Range for this account type*	Accounts Receivable
1201	Fees and Rents	Accounts Receivable
1205	Grants Receivable	Accounts Receivable
1210	Pledges Receivable	Accounts Receivable
1212	Less: Discounts	Accounts Receivable
1215	Consulting Fees Receivable	Accounts Receivable
1220	Construction Loans Receivable	Accounts Receivable
1299	Construction in Progress	Accounts Receivable
1300 - 1399	*Range for this account type*	Other Current Asset
1301	Investments	Other Current Asset
1330	Undeposited Funds	Other Current Asset
1350	Houses Held for Resale	Other Current Asset
1400 - 1499	*Range for this account type*	Fixed Asset
1405	Land	Fixed Asset
1410	Improvements Held by CLT	Fixed Asset
1411	Construction in Progress (alternative)	Fixed Asset
1415	Office Equipment	Fixed Asset
1420	Accumulated Depreciation	Fixed Asset
1500 - 1599	*Revolving Loan Funds - range*	Other Asset

	Liabilities	**Type**
2000 - 2089	*Range for this account type*	Accounts Payable
2001	Accounts Payable	Accounts Payable
2010	Construction Costs Payable	Accounts Payable
2020	Loans from Supporters Payable	Accounts Payable
2090 - 2099	*Range for this account type*	Credit Card
2090	Credit Cards	Credit Card
2091	Card Holder #1	Credit Card
2100 - 2299	*Range for this account type*	Other Current Liability
2100	Payroll Liabilities	Other Current Liability
2150	Direct Deposit Liabilities	Other Current Liability
2200	Escrow Payments	Other Current Liability
2210	Security Deposits	Other Current Liability
2220	Deferred Fees	Other Current Liability
2230	Accrued Real Estate Tax	Other Current Liability
2240	Accrued Sales Tax	Other Current Liability

2300 - 2399	*Range for these loan accounts*	Long Term Liability
2300	Notes Payable to CLT Supporters	Long Term Liability
2301	Supporter #1	Long Term Liability
2500 - 2599	*Range for these note payable accounts*	Long Term Liability
2500	Notes Payable	Long Term Liability
2501	Note Holder #1	Long Term Liability

	Equity	**Type**
3100	Unrestricted Net Assets	Equity
3200-3299	*Range for Board Designated accounts*	Equity
3200	Board Designated Net Assets	Equity
3201	Land	Equity
3202	Improvements	Equity
3250	Reserves (Neighborhood Annual)	Equity
3251	Reserves (Neighborhood LT)	Equity
3252	Reserves (House Structural Maint)	Equity
3260	Revolving Loan Fund	Equity
3290	Property Held for Resale	Equity
3300-3399	*Range for Temp Restricted accounts*	Equity
3300	Temp Restricted Net Assets	Equity
3301	Restricted Purpose #1	Equity
3400-3499	*Range for Perm Restricted accounts*	Equity
3400	Perm Restricted Net Assets	Equity
3401	Endowment #1	Equity

	Income	**Type**
5000	Lease Fees	Income
5100	Rents	Income
5101	Rental Damage and Late Fees	Income
5102	Rental Vacancies	Income
5200	Application Fees	Income
5300	Proceeds from Sales of Houses	Income
5301	Sales Fees	Income
5400	Consulting Fees	Income
5500	Grants	Income
5600	Memberships	Income
5601	Contributions	Income
5650	In-Kind Contributions	Income
5651	Capital Improvements	Income
5652	Goods	Income
5653	Services	Income
5654	Facilities	Income
5700	Fund Raising Events	Income
5900	Interest	Income
5910	Realized Gain (Loss) on Investment	Income
5915	Unrealized Gain (Loss) on Investment	Income
5920	Deferred Mortgage Appreciation	Income
5999	Released from Restrictions	Income

	Cost of Goods Sold	**Type**
6000	Cost of Houses Sold	Cost of Goods Sold

	Expense	**Type**
7000	Personnel	Expense
7100	Salaries & Wages	Expense
7200	Payroll Taxes	Expense
7300	Employee Benefits	Expense
7301	Benefits (Retirement)	Expense
8000	Operating & Property Management	Expense
8010	Accounting	Expense
8015	Advertising	Expense
8020	Bank & Brokerage Fees	Expense
8021	Credit Card Discount	Expense
8025	Board Development	Expense
8030	Computer Equipment & Supplies	Expense
8035	Consultants	Expense
8040	Cost of Merchandise Sold	Expense
8041	Cost of Consulting	Expense
8050	Depreciation Expense	Expense
8055	Dues and Subscriptions	Expense
8060	Equipment Rental	Expense
8070	Fees, Permits & Licenses	Expense
8090	Insurance	Expense

8200	Maintenance (Building)	Expense
8205	Maintenance (Contract Labor)	Expense
8210	Maintenance (Landscape)	Expense
8220	Mortgage Interest	Expense
8300	Office Supplies	Expense
8301	Office Furniture	Expense
8350	Postage and Delivery	Expense
8400	Printing	Expense
8401	Photocopies	Expense
8450	Professional Development	Expense
8500	Real Estate Taxes	Expense
8505	Refreshments & Supplies	Expense
8510	Rent	Expense
8511	Rent Write-off (tenant default)	Expense
8515	Rental Assistance	Expense
8600	Telephone & Communications	Expense
8620	Travel & Hospitality	Expense
8700	Utilities	Expense
8701	Electric	Expense
8702	Garbage/Recycling	Expense
8705	Security/Fire	Expense
8707	Sewer/Septic	Expense
8710	Water	Expense
8999	Operating Cost Share Transfer	Expense
9000	Acquisition	Expense
9001	Purchase Price	Expense
9010	Acquisition Appraisal	Expense
9020	Brokers Fee	Expense
9030	Closing Costs & Title Insurance	Expense
9040	Financing	Expense
9050	Inspections	Expense
9060	Transfer Tax	Expense
9100	Professional Services	Expense
9101	Design (Architecture)	Expense
9111	Design (Civil Engineering)	Expense
9112	Design (Surveying)	Expense
9113	Environmental Analysis	Expense
9114	Landscape	Expense
9115	Financing Consultant	Expense
9130	Homebuyer Education	Expense
9140	Legal	Expense
9150	Market Analysis	Expense
9190	Project Management	Expense
9200	Site Development	Expense
9201	Land Use Permits & Fees	Expense
9210	Site Clearing	Expense
9220	Storm Drainage	Expense
9230	Road Work	Expense
9231	Sidewalks & Paths	Expense

9241	Utilities (Electric)	Expense
9242	Utilities (Telephone)	Expense
9243	Utilities (Water)	Expense
9244	Utilities (Septic/Sewer)	Expense
9245	Utilities (Trenching)	Expense
9250	Landscaping	Expense
9300	Building Construction	Expense
9301	Building Permits & Other Fees	Expense
9305	House Site Excavation	Expense
9310	New Construction (CLT)	Expense
9320	New Construction (Contractor)	Expense
9350	Renovation (CLT)	Expense
9360	Renovation (Contractor)	Expense
9400	Carrying Costs	Expense
9401	Advertising	Expense
9410	Audit	Expense
9420	Insurance (Construction)	Expense
9430	Construction Loan Interest	Expense
9440	Loan Appraisal	Expense
9441	Loan Fees	Expense
9442	Loan Closings	Expense
9450	Mortgage Loan Processing	Expense
9451	Credit Reports	Expense
9500	Adjustments	Expense
9501	Personnel to Asset	Expense
9502	Operating & Management to Asset	Expense
9503	Land Acquisition to Asset	Expense
9504	Professional Services to Asset	Expense
9505	Site Development to Asset	Expense
9506	Building Construction to Asset	Expense
9507	Carrying Costs to Asset	Expense

CLASS LIST

The Class list below is a guideline for each CLT. Specific Classes for a particular CLT may vary from these but should follow as closely as possible.

	Class	Use
100	Project Development	Development costs not associated with a project
101	Resales	Transfers of leasehold properties
191	Housing Assistance & Counseling	Neighborhood Ops
200 - 399	Leasehold Projects	Each leasehold project is a separate class
400 - 499	Rental Projects	Each rental project is a separate class
500 - 599	Co-op Projects	Each co-op project is a separate class
600 - 699	Agricultural Projects	Each agricultural project is a separate class
700	Cost Pool for Programs	Costs that will later be allocated across each program
710	Administration	Costs of managing the CLT
720	Fund Raising	Direct and indirect solicitations
800	Board Designated	*Header only - do not use*
801	Property Acquisition	Funds designated by board for property acquisition
802	Revolving Loan Fund	Funds designated by board for revolving loan fund
900	Temporarily Restricted	*Header only - do not use*
901	Property Acquisition	Funds restricted by donor for property acquisition
902	Revolving Loan Fund	Funds restricted by donor for revolving loan fund
970	Permanently Restricted	*Header only - do not use*
971	Endowment #1	Funds permanently restricted by donor

ITEMS FOR PROJECT DEVELOPMENT & CAPITALIZATION

Each of the Items below should be a Non-inventory Part type of Item. These Items link to two accounts, referred to on the item window as Expense Account and Income Account. However, for this process, **these items will link to two expense accounts**. One is the specific project development cost expense account. The other is the "adjustment" expense account used to zero out the costs on the Profit & Loss report.

For details on creating these items, see the **ITEMS FOR PROJECT DEVELOPMENT** section of **CHAPTER TWO - PROJECT DEVELOPMENT AND CAPITALIZATION**.

The Item Name/Number for these Items should be the same as the account numbers for the corresponding project development expense accounts (in the Link to Expense Account column).

Item Description	Link to Expense Account	Link to "Income" Acct
Purchase Price	Purchase Price	Land Acquisition to Asset
Acquisition Appraisal	Acquisition Appraisal	Land Acquisition to Asset
Brokers Fee	Brokers Fee	Land Acquisition to Asset
Closing Costs & Title Insurance	Closing Costs & Title Insurance	Land Acquisition to Asset
Financing	Financing	Land Acquisition to Asset
Inspections	Inspections	Land Acquisition to Asset
Transfer Tax	Transfer Tax	Land Acquisition to Asset
Design (Architecture)	Design, Architecture	Professional Svcs to Asset
Design (Civil Engineering)	Design, Civil Engineering	Professional Svcs to Asset
Design (Surveying)	Design, Surveying	Professional Svcs to Asset
Environmental Analysis	Environmental Analysis	Professional Svcs to Asset

Landscape	Landscape	Professional Svcs to Asset
Financing Consultant	Financing Consultant	Professional Svcs to Asset
Homebuyer Education	Homebuyer Education	Professional Svcs to Asset
Legal	Legal	Professional Svcs to Asset
Market Analysis	Market Analysis	Professional Svcs to Asset
Project Management	Project Management	Professional Svcs to Asset
Land Use Permits & Fees	Land Use Permits & Fees	Site Development to Asset
Site Clearing	Site Clearing	Site Development to Asset
Storm Drainage	Storm Drainage	Site Development to Asset
Road Work	Road Work	Site Development to Asset
Sidewalks & Paths	Sidewalks & Paths	Site Development to Asset
Utilities (Electric)	Utilities, Electric	Site Development to Asset
Utilities (Telephone)	Utilities, Telephone	Site Development to Asset
Utilities (Water)	Utilities, Water	Site Development to Asset
Utilities (Septic/Sewer)	Utilities, Septic/Sewer	Site Development to Asset
Utilities (Trenching)	Utilities, Trenching	Site Development to Asset
Landscaping	Landscaping	Site Development to Asset
Sales Tax	Sales Tax	Site Development to Asset
Building Permits & Other Fees	Building Permits & Other Fees	Bldg Construction to Asset
House Site Excavation	House Site Excavation	Bldg Construction to Asset
New Construction (CLT)	New Construction (CLT)	Bldg Construction to Asset
New Construction (Contractor)	New Construction (Contractor)	Bldg Construction to Asset
Renovation (CLT)	Renovation (CLT)	Bldg Construction to Asset
Renovation (Contractor)	Renovation (Contractor)	Bldg Construction to Asset
Advertising	Advertising	Carrying Costs to Asset
Audit	Audit	Carrying Costs to Asset
Insurance (Construction)	Insurance-Construction	Carrying Costs to Asset
Construction Loan Interest	Construction Loan Interest	Carrying Costs to Asset
Loan Appraisal	Loan Appraisal	Carrying Costs to Asset
Loan Fees	Loan Fees	Carrying Costs to Asset
Loan Closings	Loan Closings	Carrying Costs to Asset
Mortgage Loan Processing	Mortgage Loan Processing	Carrying Costs to Asset
Credit Reports	Credit Reports	Carrying Costs to Asset

The Items below are used to capitalize payroll costs for project development time. They should be a Service type of Item. Create one or both (as applicable) for each employee who charges time to project development. You may want to move these to the bottom of the list of Service Items so they are adjacent to the other Items used to capitalize project development costs.

For details on creating these items, see the **ITEMS FOR PROJECT DEVELOPMENT** section **CHAPTER TWO - PROJECT DEVELOPMENT AND CAPITALIZATION**.

If preferred, use a number for the Item Name/Number.

Item Name/Number	Description	Linked to Account
Improves - [Name]	[Name's] time: Improvements Held by CLT	Personnel to Asset
HHR - [Name]	[Name's] time: Houses Held for Resale	Personnel to Asset

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Items for Fees and Reserves

The Items below are used to invoice monthly leasehold and other fees including fees for funding reserves. They should be a Service type of Item.

For details on creating these items, see the **Items for Fees and Reserves** section of **Chapter Five - Fees, Rents, and Reserves**.

If preferred, use a number for the Item Name/Number.

Item Name/Number	Description	Linked to Account
Leasehold Fee	Leasehold Fee	Lease Fees
Reserve Fees	*Header only - do not use*	Lease Fees
Neighborhood Annual	Neighborhood Annual	Lease Fees
Neighborhood LT	Neighborhood LT	Lease Fees
House Structural Maint	House Structural Maint	Lease Fees
Rents (residential)	Rents (residential)	Rents
Rents (commercial)	Rents (commercial)	Rents
Rental Damage	Rents (commercial)	Rental Damage and Late Fees
Late Fees	Late Fees	Rental Damage and Late Fees
Water Usage	Water Usage (bill or reimburse)	Op & Prop Mgmt: Utilities:Water
Electric	Electric	Op & Prop Mgmt: Utilities:Electric
Reserve Transfers	*Header only - do not use*	Unrestricted Net Assets
Unrestricted Net Assets	Transfers to/from Unrestricted Net Assets	Unrestricted Net Assets
Neighborhood Annual	Transfers to/from Neighborhood Annual Reserve	Board Designated Net Assets: Reserves (Neighborhood Annual)
Neighborhood LT	Transfers to/from Neighborhood LT Reserves	Board Designated Net Assets: Reserves (Neighborhood LT)
House Structural Maint	Transfers to/from House Structural Maint Reserves	Board Designated Net Assets: Reserves (House Structural Maint)

CHAPTER TWO - PROJECT DEVELOPMENT AND CAPITALIZATION

SUMMARY OF PROCESS

It is useful to track project development costs as expenses so they can be compared to a budget. However, project costs are capital costs and properly belong on the Balance Sheet rather than on the Profit and Loss report. These apparently conflicting results can be accomplished using the detailed procedures following the summary.

Set up an item for each project development expense account and link it to its related expense account and to the adjustment account that is used to move it to the asset section of the Balance Sheet (see **ITEMS FOR PROJECT DEVELOPMENT AND CAPITALIZATION** above).

Set up a customer named Project Development and add jobs under it for each project.

Use items rather than expense accounts when recording bills from vendors from whom goods or services for project development are purchased, i.e. any costs that will eventually be capitalized. Assign each line on the bill to the appropriate project using customer:job.

When reporting time on a paycheck, use the time tracking system and service items for time spent on project development that should be capitalized. Assign each item to the appropriate project using customer:job.

To capitalize (move costs to fixed assets on the Balance Sheet) project development costs, at the end of each month create an invoice that will record the costs in a Construction in Progress account on the Balance Sheet and will reduce the net effect of the project development costs on the Profit and Loss report to zero while leaving the detail of the costs on the report.

The invoice is a device for easily moving costs from the Profit and Loss report to the Balance Sheet by using the billable time and costs feature in QuickBooks. Use the accounts receivable account named Construction in Progress on the invoice. The project development costs charged to items on vendor bills will be pulled onto the invoice. They will increase the accounts receivable account named Construction in Progress. This will be a temporary "holding" account for these costs until distributing them into the appropriate fixed asset accounts.

An advantage of using the method described here for project development and capitalization is that it eliminates the extensive use of General Journals in QuickBooks, resulting in audit trails that are easier to follow.

While this method works well for capital costs recorded on vendor bills, checks, credit card charges, and paychecks, not all capital costs are recorded on those forms. In many cases, a CLT receives in-kind contributions that increase the value of capital projects and, therefore, should be capitalized. In-kind contributions cannot be recorded in a manner that can be incorporated into this method and, thus, must be addressed separately. If a CLT determines that this method is not the most efficient, an alternative method can be used. The alternative method is described in the **APPENDIX**.

Regardless of which method is used to capitalize costs, distribute the amounts in the Construction in Progress account to the appropriate asset accounts when a project is completed and/or at fiscal year-end if a project is still in progress.

CUSTOMERS AND JOBS FOR PROJECT DEVELOPMENT

In order to use the billable costs and time feature to capitalize project development costs, complete the following steps to create a customer named Project Development and add jobs under that customer for each project that is in process.

> Note that if you use the alternate method for capitalizing costs described in the **APPENDIX**, you will not need to create these Customers and Jobs.

Create a Customer named Project Development:

1. From the **Customer** menu, select **Customer:Job List**
2. Click the **Customer:Job** button in the lower left corner
3. Select **New**
4. In the Customer Name field enter **Project Development**
5. Click **OK**

When a new project begins (and for existing projects that have project development or other capital costs), add it as a new job under the customer Project Development:

1. From the **Customer** menu, select **Customer:Job List**
2. Highlight the **Project Development** Customer
3. Click the **Customer:Job** button in the lower left corner
4. Select **Add Job**
5. Enter the project name
6. Click **OK**

Government funding sources usually require recipient organizations to report how the funding was spent. Use a sub-job to delineate funding sources and charge costs to sub-jobs on vendor bills, checks, or credit card charges. You can print a report of expenditures by funding sources.

If any costs of a project will be charged to specific funding sources, add a sub-Job under the project Job for each source of funding and one called No Specific Funding:

1. From the **Customer** menu, select **Customer:Job List**
2. Highlight the appropriate **Job** under **Project Development** Customer
3. Click the **Customer:Job** button in the lower left corner
4. Select **Add Job**
5. Enter the funding source name (or No Specific Funding)
6. Click **OK**

ACCOUNTS FOR PROJECT DEVELOPMENT

Project development costs will be charged to expense accounts and then zeroed out against "adjustment" expense accounts. When they are zeroed out, those costs will be "held" in an accounts receivable account named Construction in Progress until the costs are finally distributed to the appropriate asset accounts.

Create the Accounts Receivable Account:

1. From the **Lists** menu, select **Chart of Accounts**
2. Click the **Account** button in the lower left corner
3. Select **New**
4. From the **Type** drop-down menu, select **Accounts Receivable**
5. In the **Name** field enter **Construction in Progress**
6. Click **OK**

Create the project development expense Accounts and "adjustment" expense Accounts:

1. From the **Lists** menu, select **Chart of Accounts**
2. Click the **Account** button in the lower left corner

3. Select **New**

4. From the **Type** drop-down menu, select **Expense**

5. In the **Name** field enter the name of the Account

6. Click the **Subaccount of** box if necessary

7. Select the appropriate "header" Account from the drop-down list

8. Click **OK**

Create all the project development accounts in the 9000 series of expense section of the **Chart of Accounts** table in **Chapter One - Uniform Lists**. These accounts are grouped under the following header accounts: Acquisition, Professional Services, Site Development, Building Construction, Carrying Costs, and Adjustments. Do not use the header accounts in transactions.

Items for Project Development

Items are always linked to an account on the Chart of Accounts so that, when the item is used in recording a transaction, the account that the item is linked to is affected. When costs paid to a vendor will be charged through to a customer, an item can be set up that links to two accounts. It links to an account that will be debited when a vendor bill is entered using the item. This account is referred to as Expense account on the Item window. It also links to an account that will be credited when an invoice is created using the item. This is referred to as Income account on the Item window. However, any type of account can be assigned in those fields and, in this process, expense type accounts will be assigned to both.

This feature can be used to charge (debit) project development and other capital costs to expense accounts and then to credit "adjustment" expense accounts for the same amounts, reducing the net effect of the costs on the Profit and Loss report to zero. The purpose of the "adjustment" expense accounts is to zero out the costs without losing the detail in each of the project development expense accounts.

Note that if you use the alternate method for capitalizing costs described in the **Appendix**, you will not need to create these Items.

Items for Vendor Costs

Create Items for charging project development costs payable to vendors:

1. From the **Lists** menu, select **Item List**

2. Click the **Item** button in the lower left corner

3. Select **New**

4. From the **Type** drop-down menu, select **Non-inventory Part**

5. For the **Item Name** use the same name as the project development expense Account it is associated with (or use the Account number of that expense Account)

6. Click the box **This item is purchased for and sold to a specific customer:job**

   This will allow you to link the item to an expense Account and to an income Account

7. For the **Description** use the name of the project development expense Account the item is associated with

8. From the **Expense Account** drop-down menu, select the expense Account associated with the item to link the item to when entering a vendor bill

9. From the **Income Account** drop-down menu, select the expense Account that will be used to reclassify the expense to the Balance Sheet

10. Click **OK**

Create all the Non-inventory Part items in the **ITEMS FOR PROJECT DEVELOPMENT & CAPITALIZATION** table in **CHAPTER ONE - UNIFORM LISTS** and link each to the accounts noted in the table.

ITEMS FOR PAYROLL COSTS

Create items for employee time for project development:

1. From the **Lists** menu, select **Item List**
2. Click the **Item** button in the lower left corner
3. Select **New**
4. From the **Type** drop-down menu, select **Service**
5. For the **Item Name** include identification of the employee and the type of cost capitalized

   Note that the types of costs that employees spend time on that will be capitalized are Improvements Held by CLT and Houses Held for Resale
6. For the **Description** identify the employee and the type of cost
7. In the **Rate** field enter the approximate hourly <u>cost</u> of the employee

   To determine the hourly cost of an employee, calculate the cost of payroll taxes and benefits. Then calculate those costs as a percentage of gross pay. Determine the hourly rate for the employee and increase it by the calculated percentage, e.g. if tax and benefits are 15% of an employee's gross pay, multiply the hourly rate by 115%)
8. From the **Account** drop-down menu, select the adjustment expenses Account Personnel to Asset

9. Click **OK**

For each employee who has time charged to project development costs, create an Item for each combination of employee and type of cost (Improvements Held by CLT and Houses Held for Resale). ***Be sure to update the rate for each employee whenever pay rates, taxes, or benefits change.***

Move Items related to payroll project development costs to the bottom of the Service Items section on the Item List just above the other (Non-inventory Part) project development Items.

PAYROLL SETUP FOR PROJECT DEVELOPMENT COSTS

Note that if you use the alternate method for capitalizing costs described in the **APPENDIX**, you will not need to set up payroll this way.

Use the Time Tracking feature in QuickBooks to record employee hours for project development. You may use this feature for all employees but it is not necessary.

To turn on Time Tracking:

1. From the **Edit** menu, select **Preferences**
2. Click the **Time Tracking** preference
3. Click the **Company Preferences** tab
4. Click **Yes** in the **Do You Track Time?** Box
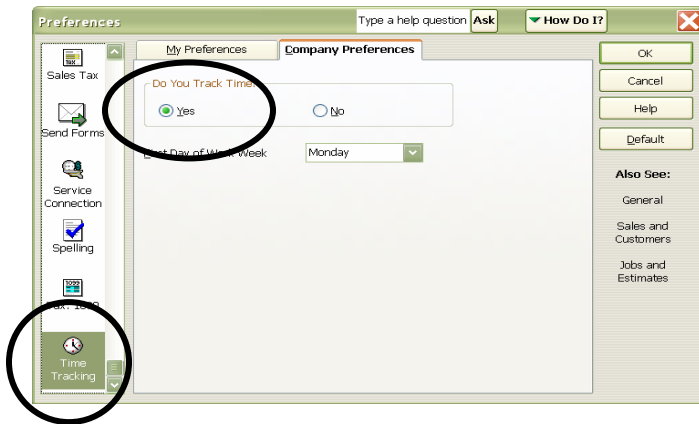
5. Click **OK**

To turn off the time tracking feature (optional) for employees who do not have project development time:

1. From the **Employees** menu, select **Employee List**
2. **Edit** an employee who does not have time for project development
3. In the **Change tabs** field, drop down the list and select **Payroll and Compensation Info**
4. Uncheck the **Use time to create paychecks** box
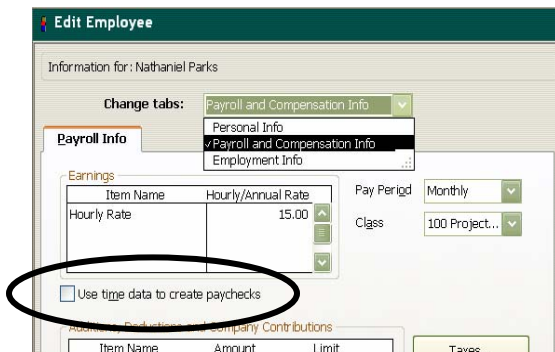
5. Click **OK**

RECORD PROJECT DEVELOPMENT COSTS

VENDOR BILLS

Often project development costs include contractor bills that provide for retainage of a portion of the bill until the work is completed. When this is the case, enter the entire bill and then pay only the portion currently due, leaving the retainage unpaid until completion. At completion, pay all the unpaid portions of bills to each contractor who had retainage withheld.

When you incur costs for project development that will be capitalized to the project, enter a vendor bill to record the costs:

1. From the **Vendors** menu, select **Enter Bills**
2. If there is more than one Accounts Payable Account, select one from the **A/P Account** drop-down list
3. In the **Vendor** field, drop down the vendor list to select the **vendor** or enter the vendor name
4. **Tab** between fields on the form
5. In the **Date** field enter the **date printed on the bill**
6. **Tab** to the next field and enter a **reference number** if necessary
7. **Tab** to the next field and enter the **amount**
8. **Tab** to the **Bill Due** field and accept the default or enter another **due date**

    The default due date for all vendors is 10 days after the bill date and can be changed in **Preferences \ Purchases & Vendors**. It can then be overridden for individual vendors by editing vendor information (**Vendor List**, **Edit Vendor**, **Additional Info tab**). It can also be overridden in the **Terms** field.
9. **Tab** to the next field and, if necessary, select the **terms** from the drop-down menu or **Add New** terms
10. If there is retainage, tab to the memo field above the coding section and enter the amount of retainage
11. **Tab** to the coding section of the window
12. Click on the **Items** tab in the coding section

13. In the **Item** column on the **Item** tab drop down the item list and select the **Item** associated with the appropriate project development expense Account

14. **Tab** to the next column and accept the **description**

15. **Tab** to the next column and, if applicable, enter a **quantity**

16. **Tab** to the next column and, if applicable, enter a **rate**

17. **Tab** to the next column and accept or enter the **amount**

18. **Tab** to the next column, drop down the **Customer:Job** list and select the appropriate project (Job) under the Project Development Customer (and if there are sub-Jobs for specific funding sources, select the appropriate sub-Job)

19. **Tab** to the next column and drop down the **Class** and select the appropriate Class for the project

20. Add additional lines as needed

    Note: If there are costs on the bill that are not project development costs that will not be capitalized, click the Expenses tab and enter them there.

21. Click **Save & Close**

Note that other methods for recording project development costs are Write Checks and Record Credit Card Charges, both accessed from the Banking menu. If either or both of these methods are used (in addition to vendor bills or instead of), the process is the same as above. Click on the Items tab and record costs there, using items, rather than on the Expenses tab.

See the **APPENDIX** for payment of bills with retainage.

If using the alternate method for capitalizing costs, record costs on the **Expenses** tab using the appropriate project development expense account and the appropriate Class. See the **APPENDIX** for a description of that method.

PAYROLL HOURS

Be sure to separate an employee's project development hours by each combination of project, funding source, and type of cost (Improvements Held by CLT or Houses Held for Resale) before beginning this process.

Enter hours for the pay period that will be charged to project development on a weekly timesheet:

1. From the **Employees** menu, select **Time Tracking** and then **Use Weekly Timesheet**

2. In a blank timesheet, enter the employee name
3. Click the **Set Date** button in the lower left corner and enter the last day of the pay period

4. On the first line, in the **Customer:Job** column, drop down the **Customer:Job** list and select the appropriate Job and sub-Job under Project Development Customer (project and funding source)
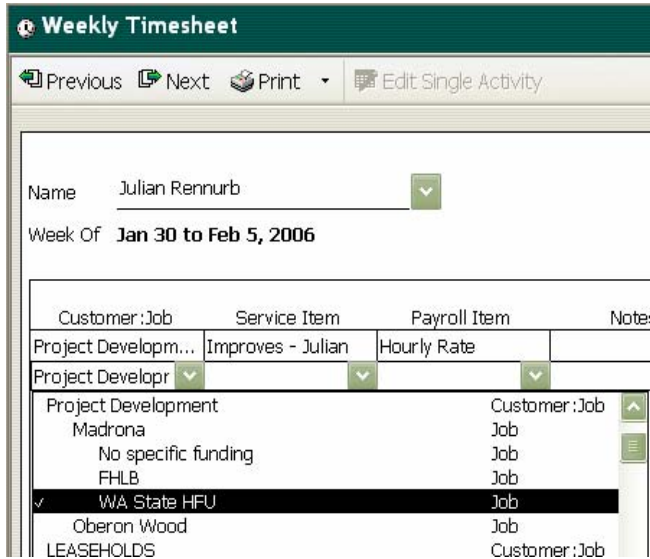
5. In the next column, drop down the **Service Item** list and select the appropriate service item (appropriate employee and type of cost)
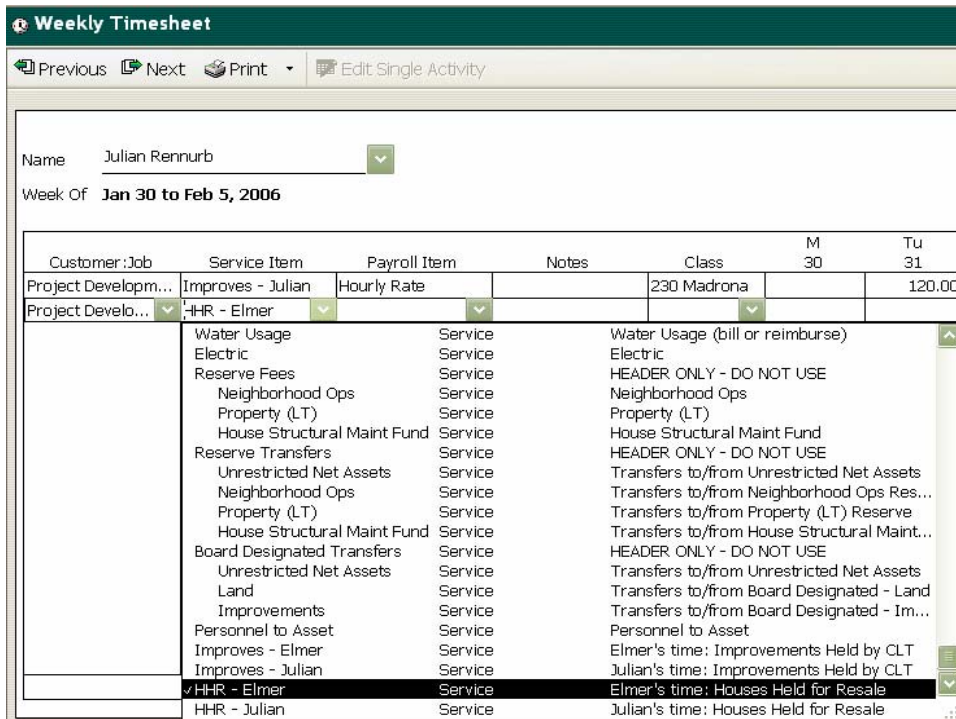
6. In the next column, select the appropriate **Payroll Item** for the employee
7. In the **Class** column, select the appropriate project (**Class**) for the time

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8. Summarize the hours for the pay period for that combination of project, funding source, and cost type and enter them in the column for the last day of the pay period

9. If you enter more than 24 hours for one day you will get a warning
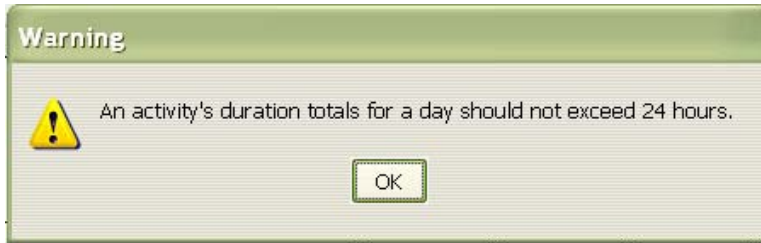
10. Click **OK**

11. Continue entering, on separate lines, hours for each combination of funding source (**Customer:Job**), cost type (**Service Item**), and project (**Class**)

Note that you can enter all of an employee's hours on the timesheet if you want. Click in the last column (to X out the billable cost icon) for lines with hours that are <u>not</u> project development hours. <u>Do not</u> select a Service Item for those hours.
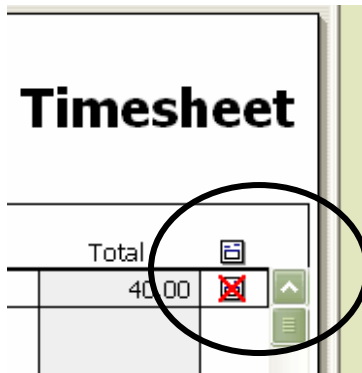
Alternatively, you can enter <u>only</u> project development hours on the timesheet and enter the other hours when processing the payroll in **Pay Employees**

12. Click **Save & Close** (or **Save & New** to enter another timesheet)

13. If you entered more than 24 hours for one day you will get a warning

Day limit exceeded

⚠ More than 24 hours have been entered for a single day. Do you want to continue?

[Yes] [No]
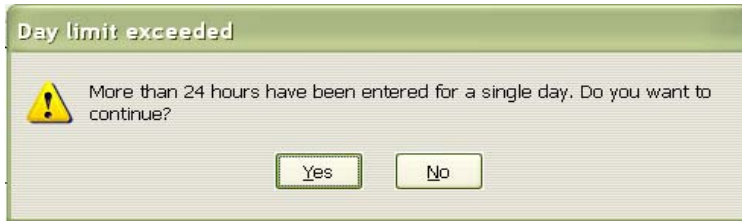
14. Click **Yes**

When you go into **Pay Employees,** the hours from the timesheets will automatically populate the paycheck (if no hours were entered on a timesheet you will get a message saying that). You can add additional earnings or other items as usual when creating the paycheck if you did not put non-project development hours on the timesheets.

REVIEW PROJECT DEVELOPMENT COSTS

Capitalize project development costs as part of the month-end process so the Balance Sheet and the Profit & Loss report are correct. Review the vendor and payroll costs carefully. When you are certain the costs are correct and complete, you will pull them onto an invoice. The effect will be to zero out the costs on the Profit & Loss report without eliminating the detail of the costs on that report.

REVIEW VENDOR COSTS

1. From the **Reports** menu, select **Jobs, Time & Mileage**
2. Select **Unbilled Costs by Job** to display the report
3. Drop down the list in the **Dates** field and select **Last Month**
4. Press **Tab** and note that the dates in the **From** and **To** fields change
5. Click the **Modify Report** button
6. Click the **Filters** tab
7. In the **Choose Filter** box highlight **Name**
8. From the **Name** drop-down list, select the Customer:Job **Project Development**
9. Click **OK**

Unbilled Costs by Job
January 2006

	Type	Date	Source Name	Memo	Account	Billing Status	Amount
Project Development							
Madrona							
No specific funding							
	Bill	01/09/2006	Terra Firma NW LLC	Design, Arch…	Design, Architecture	Unbilled	7,500.00
	Bill	01/12/2006	Aldort, Harvey	Purchase Pr…	Purchase Price	Unbilled	9,500.00
	Total No specific funding						17,000.00
FHLB							
	Bill	01/05/2006	Aldort, Harvey	Purchase Pr…	Purchase Price	Unbilled	100,000.00
	Total FHLB						100,000.00
WA State HFU							
	Bill	01/27/2006	Azous Environment…	Environment…	Environmental Anal…	Unbilled	1,500.00
	Total WA State HFU						1,500.00
	Total Madrona						118,500.00
	Total Project Development						118,500.00
TOTAL							**118,500.00**

Print this report as supporting documentation for the amounts capitalized. To reprint this report <u>after</u> creating the invoices:

1. Click the **Modify Report** button
2. Click the **Filters** tab
3. In the **Choose Filter** box select **Billing Status**
4. Click **Billed**
5. If you plan to print the report, click the **Header/Footer** tab and change the **Report Title**
6. Click **OK**
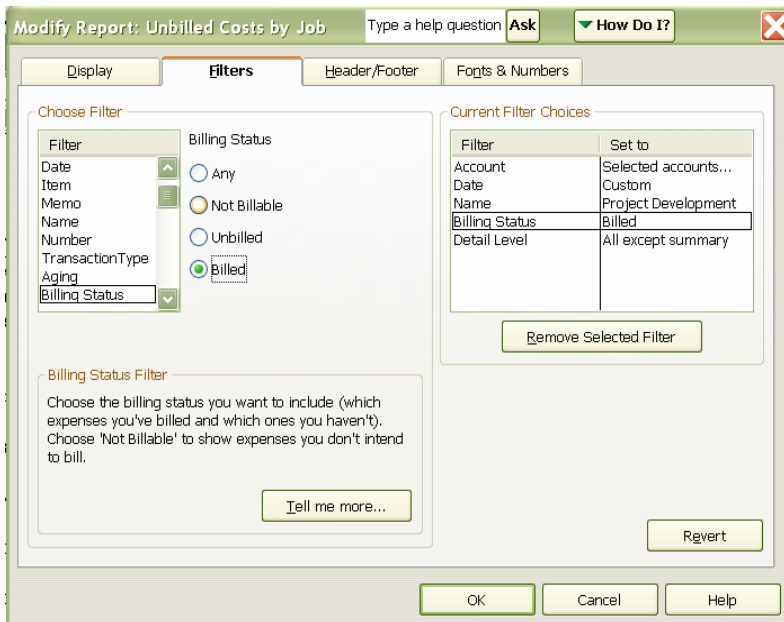
REVIEW PAYROLL COSTS

1. From the **Reports** menu, select **Jobs, Time & Mileage**
2. Select **Time by Job Detail** to display the report
3. Drop down the list in the **Dates** field and select **Last Month**
4. Press **Tab** and note that the dates in the **From** and **To** fields change

Time by Job Detail
January 2006

◇ Date ◇	Name ◇	Billing Status ◇	Duration

Project Development:Madrona:FHLB
  Improves - Elmer

01/31/2006	Elmer C Sre...	Unbilled	120.00
Total Improves - Elmer			120.00

  Improves - Julian

01/31/2006	Julian Renn...	Unbilled	120.00
Total Improves - Julian			120.00

Total Project Development:Madrona:FHLB			240.00

Project Development:Madrona:WA State HFU
  HHR - Julian

01/31/2006	Julian Renn...	Unbilled	40.00
Total HHR - Julian			40.00

Total Project Development:Madrona:WA State HF			40.00

TOTAL			**280.00**

MEMORIZE REPORTS TO REVIEW COSTS EACH MONTH

It is helpful to organize memorized reports into groups.

To create a memorized report group:

1. From the **Reports** menu, select **Memorized Reports**
2. Select **Memorized Report List** to display the list
3. Click the **Memorized Report** button at the lower left corner of the list
4. Select **New Group**
5. Enter the name of the group, for instance **Project Development Capitalization**
6. Click **OK**

To memorize the report:

1. With the report open, click the **Memorize** button
2. Accept the default name for the report
3. Click **Save in Memorized Report Group** box
4. From the drop-down list select **Project Development Capitalization**

5. Click **OK**

REVIEW FOR MISTAKES AND MISSING COSTS

Review all the costs listed on these reports for correctness of amount or hours, project, and funding source. To make corrections, double-click on the transaction on the report and make the correction.

Also carefully consider whether there are any costs that should be on the report that are not. They may be missing because:

▪ The costs were not recorded in QuickBooks yet

▪ The customer:job Project Development was <u>not</u> used when recording the costs

▪ The costs were recorded on an Expense tab rather than an <u>Item</u> tab

It is very important that each of the vendor costs was recorded using an Item rather than an expense account (see **VENDOR BILLS** above).

It is not easy to correct mistakes made when pulling costs onto an invoice so it is a good idea to proceed carefully. Although the invoice can be deleted, the costs pulled onto it are not "restored" to the status of "unbilled" if the invoice is deleted. Each vendor bill would have to be deleted and re-entered to restore unbilled status.

CAPITALIZE PROJECT DEVELOPMENT COSTS

To capitalize development costs create an invoice and, using the **Time/Costs** feature, pull the project development costs onto the invoice. <u>It is essential that all vendor costs were recorded using an Item and all payroll hours were recorded on a timesheet</u>. Any vendor costs that were not recorded that way will be zeroed out against the project development expense account they were originally recorded to rather than being zeroed out against the appropriate "adjustment" account. Any payroll hours not recorded that way will not appear at all.

As explained above, the invoice is a device for transferring costs to the Balance Sheet while leaving the expense detail in the accounts they were originally recorded to (via Items). The effect of this invoice will be to move all the costs to an accounts receivable "holding" account named Construction in Progress and, on the Profit & Loss report, create negative amounts in the various "adjustment" accounts, indicating the costs were transferred to the Balance Sheet.

Enter one invoice for each Job or sub-Job under the Project Development Customer:Job included on the Unbilled Costs by Job report and the Time by Job Detail report:

1. From the **Customers** menu, select **Create Invoices**
2. In the **Customer:Job** field, from the drop-down list select **Project Development** and the appropriate Job or sub-Job under that

3. Press **Tab** to move through the data entry form
4. **Tab** to the **Class** field and from the drop-down list select the appropriate project
5. **Tab** to the **Account** field and select the **Construction in Progress** Account
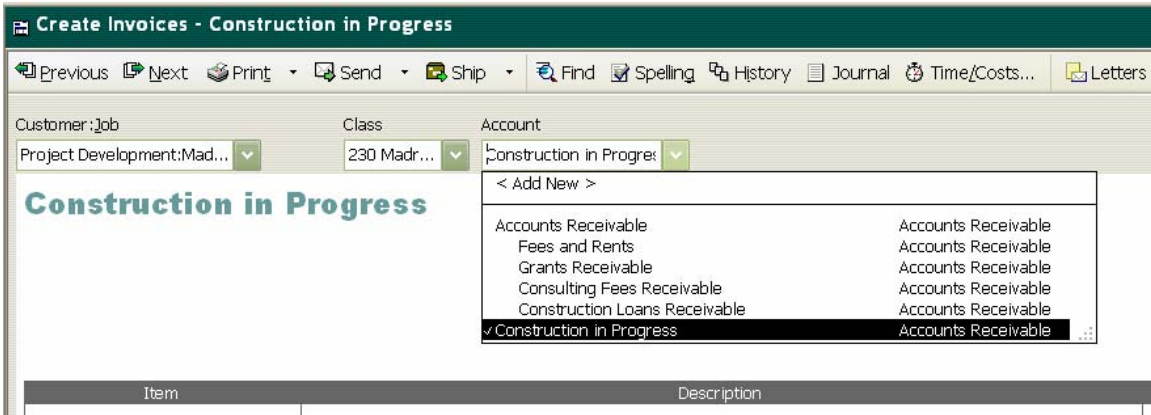
6. **Tab** to the **Template** field and select the appropriate template
7. **Tab** to the date field and enter the last day of the previous month in the date field
8. **Tab** to the next field and enter a **reference number** or accept the default
9. Click on the **Time/Costs** icon in the toolbar at the top of the invoice
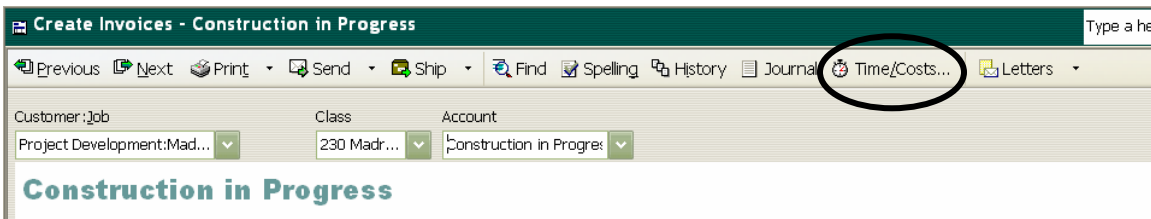
The **Choose Billable Time and Costs** window will pop up
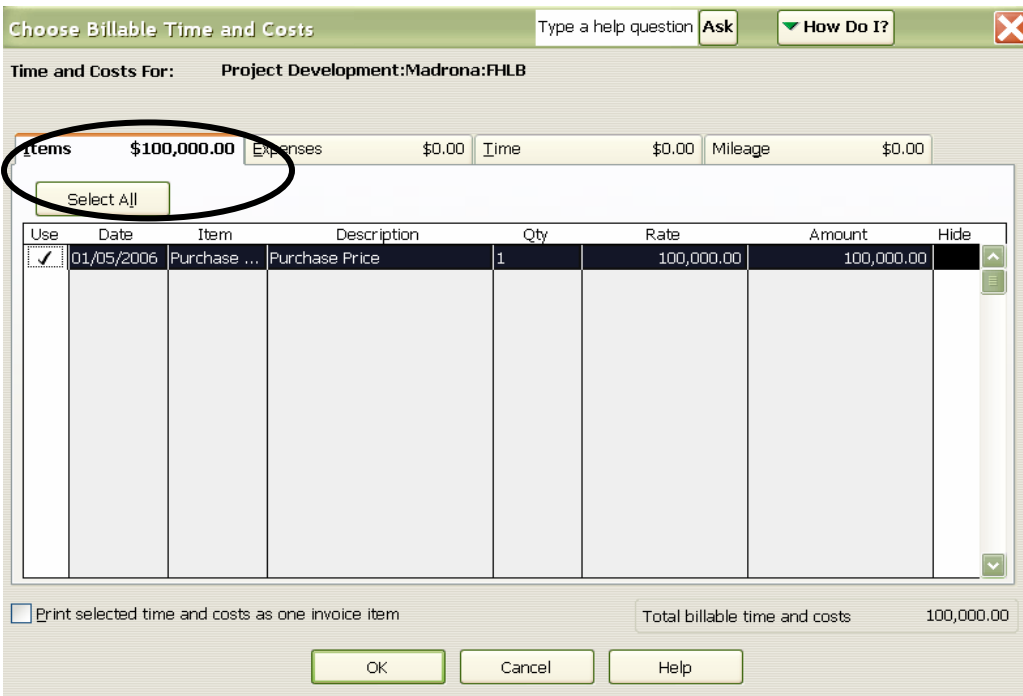
10. On the **Items Tab** click in the **Use** column to select all costs for the month

11. Click on the **Time Tab** and select all hours for the month (click in **Use** column)

12. Click the **Options** button
13. Click **Transfer item descriptions**

14. Click **OK**
15. Click **OK** to pull all selected Items and Time onto the invoice
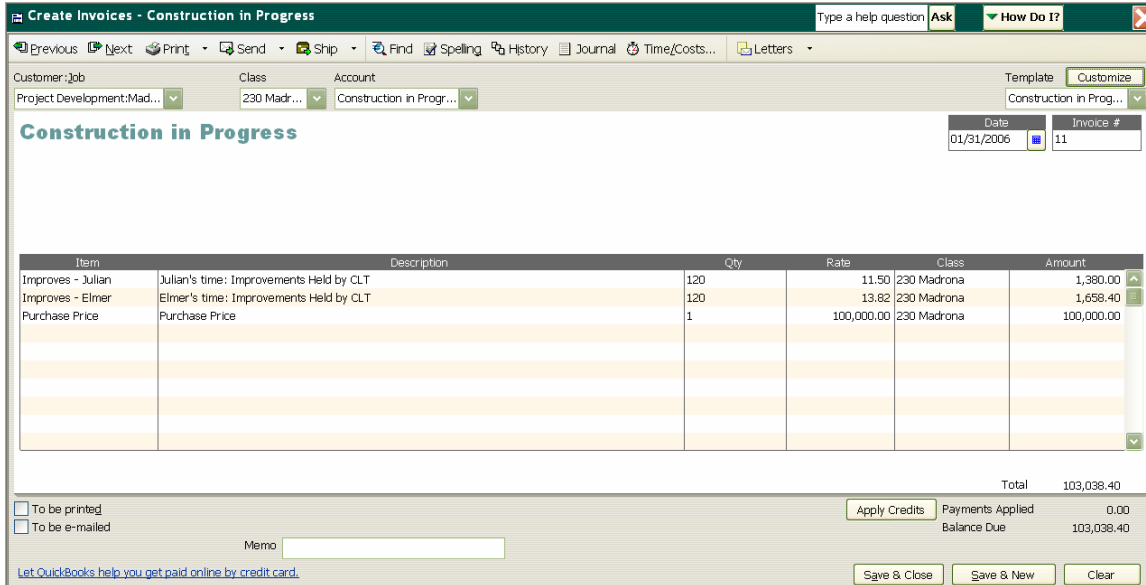
16. Click **Save & Close**

REPORTING PROJECT DEVELOPMENT COSTS

After recording all invoices to transfer costs to Construction in Progress, the relevant section of a Profit & Loss report, filtered for one project (Class) and certain expense accounts, displays project development costs in detail while zeroing them out in the adjustments section.

Note: Because the hourly cost for employee hours capitalized is an estimate, that amount does not exactly zero out.

The amounts zeroed out in the adjustments accounts were transferred to Construction in Progress via invoices as described above. By drilling into the Construction in Progress (accounts receivable account) on the Balance Sheet, you can see the detail currently in that account.

Transactions by Account
As of January 31, 2006

Type	Date	Name	Class	Amount	Balance
Construction in Progress					0.00
Invoice	01/31/2006	Project Development:Oberon Wood	220 Oberon Wood	3,750.00	3,750.00
Invoice	01/31/2006	Project Development:Madrona:FHLB	230 Madrona	102,997.60	106,747.60
Invoice	01/31/2006	Project Development:Madrona:No specific funding	230 Madrona	17,000.00	123,747.60
Invoice	01/31/2006	Project Development:Madrona:WA State HFU	230 Madrona	1,970.00	125,717.60
Total Construction in Progress				125,717.60	125,717.60
TOTAL				**125,717.60**	**125,717.60**

DISTRIBUTE CONSTRUCTION IN PROGRESS TO ASSETS

The Construction in Progress account is a holding account used to quickly and easily capitalize costs via the device of an invoice. This should be done as part of the month-end process.

Periodically the costs held in that account should be reclassified into the appropriate asset accounts: Houses Held for Resale, Land, and Improvements Held by CLT. This should be done at the end of each fiscal year or sooner, if a project is completed during the year. However it can be done more frequently.

SUMMARIZE COSTS FOR DISTRIBUTION TO ASSETS

The first step is to print a summary of the costs by project.

1. From the **Reports** menu, select **Custom Summary Report**
2. The **Modify Report** window automatically opens to the **Display** tab
3. Set the date range
4. From the **Display columns by** field, select **Class**
5. From the **Display rows by** field, select **Item detail**
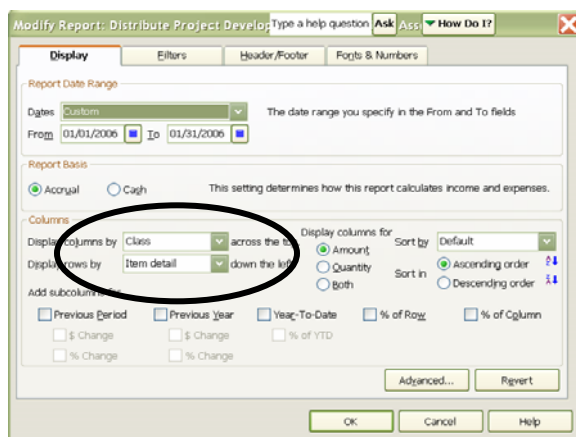
6. Click the **Filters** tab

7. In the **Choose Filter box**, highlight **Account**
8. From the **Account** field drop down the list and choose **Selected (or Multiple) Accounts**
9. A list of Accounts will pop up
10. Click each Account in the Adjustments section of Expenses (at the end of the list)

11. Click the **Header/Footer** tab
12. In the **Report Title** field enter **Distribute Project Development Costs to Assets**
13. Click **OK** to display the report

Distribute Project Development Costs to Assets
January 2006

	220 Oberon Wood	230 Madrona	TOTAL
Parts			
Purchase Price	0.00	109,500.00	109,500.00
Design, Architecture	0.00	7,500.00	7,500.00
Environmental Analysis	0.00	1,500.00	1,500.00
Storm Drainage	3,750.00	0.00	3,750.00
Total Parts	3,750.00	118,500.00	122,250.00
Service			
Improves - Elmer	0.00	1,587.60	1,587.60
Improves - Julian	0.00	1,410.00	1,410.00
HHR - Julian	0.00	470.00	470.00
Total Service	0.00	3,467.60	3,467.60
TOTAL	3,750.00	121,967.60	125,717.60

Print all the reports used to determine the distribution as support for the General Journal distributing the costs.

Prepare a General Journal

From the information summarized above, determine the amounts to distribute to each asset account. Then prepare a General Journal to transfer amounts from Construction in Progress to the appropriate asset accounts. The General Journal will also transfer amounts from Unrestricted Net Assets into Board Designated Net Assets for land and for improvements. Select a Class (project) for each line.

If you are distributing costs for more than one project, make a separate General Journal for each project.

It may be helpful to export the Distribute Project Development Costs to Assets report for each project to Excel to summarize amounts for the General Journal:

1. With the Distribute Project Development Costs to Assets report open, filter the report to show one project (then follow these steps for each project with costs to distribute)
2. Click the **Modify Report** button
3. On the **Display** tab, drop down the **Display columns by** field and select **Total only**
4. Click the **Header/Footer** tab and add the project name to the **Report Title**
5. Click **OK** to display the report

Madrona - Distribute Project Development Costs to Assets
January 2006

	Jan 06
Parts	
Purchase Price	▸ 109,500.00 ◂
Design, Architecture	7,500.00
Environmental Analysis	1,500.00
Total Parts	118,500.00
Service	
Improves - Elmer	1,587.60
Improves - Julian	1,410.00
HHR - Julian	470.00
Total Service	3,467.60
TOTAL	121,967.60

6. Click the **Export** button.
7. Click the **Advanced** tab
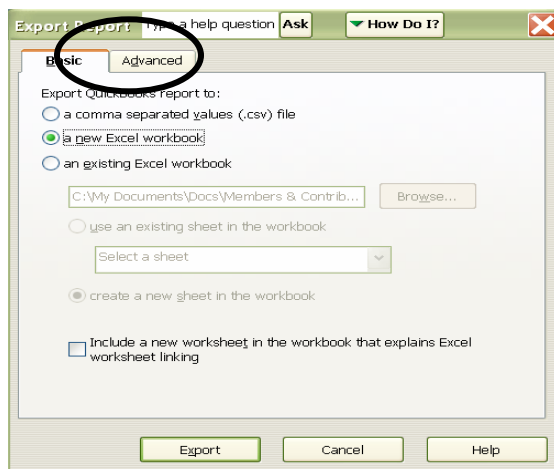
8. Uncheck the **Space between columns** box

9. Click **Export**

In the Excel worksheet, add the summary for distributing costs to each asset account. Use Excel features to do this, creating formulas rather than manually adding amounts.

In this example, Purchase Price is distributed to Land, Environmental Analysis is distributed to Improvements Held by CLT and Design, Architecture is distributed to Houses Held for Resale. Where applicable, personnel costs are added to the appropriate line item.

MAKE GENERAL JOURNAL

To record a General Journal:

1. From the **Company** menu, select **Make General Journal Entries**
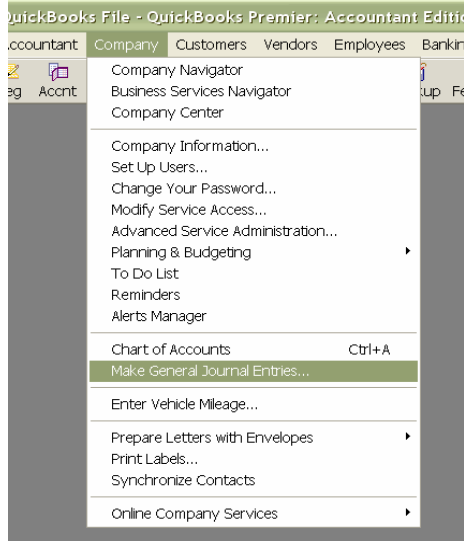
2. Enter the effective date of the General Journal (the date you want the journal to affect the financial reports)
3. In the first line, select **Construction in Progress** in the **Account** column
4. **Tab** to the **Credit** column and enter the full amount being distributed for the project
5. **Tab** to the **Name** field and enter the Customer **Project Development** and the Job that represents the project (do not use the sub-Job level in the General Journal)
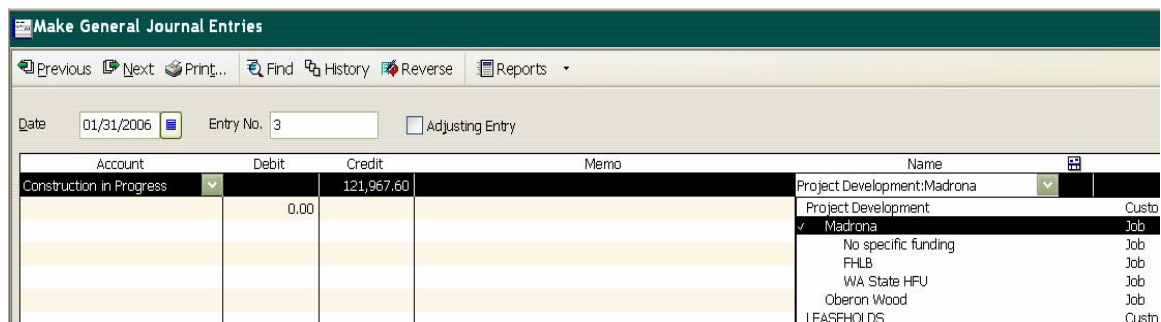
6. **Tab** to the **Class** field and enter the appropriate project
7. **Tab** to the next line and in the **Account** column enter one of the asset Accounts
8. **Tab** to the **Debit** column and enter the amount distributed to that Account
9. **Tab** to the **Class** column and enter the project
10. Continue until all appropriate asset Accounts have been entered

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11. Finally, enter lines to transfer net assets from unrestricted to board designated for land and/or for improvements

12. **Tab** to the next line and select **Board Designated Net Assets: Land** and in the **Credit** column enter the amount recorded to Land

13. **Tab** to the **Class** column and enter the project

14. **Tab** to the next line and select **Board Designated Net Assets: Improvements** and in the **Credit** column enter the amount recorded to Improvements Held by CLT

15. **Tab** to the **Class** column and enter the project

16. **Tab** to the next line and select **Unrestricted Net Assets** and in the **Debit** column enter the sum of amounts recorded to Land and Improvements Held by CLT (or accept the default)

17. Click **Save & Close**

After recording a General Journal to distribute costs from the "holding" account Construction in Progress to the appropriate asset accounts, the relevant section of a Balance Sheet, filtered for one project (Class), displays asset balances.

Note that this is not a balanced financial statement; it is informational only.

Again, print all reports that support the General Journal entry.

Balance Sheet - Madrona

As of January 31, 2006

	Jan 31, 06
ASSETS	
Current Assets	
Other Current Assets	
Houses Held for Resale	7,970.00
Total Other Current Assets	7,970.00
Total Current Assets	7,970.00
Fixed Assets	
Real Property	
Land	109,500.00
Improvements Held by CLT	4,497.60
Total Real Property	113,997.60
Total Fixed Assets	113,997.60
TOTAL ASSETS	121,967.60
LIABILITIES & EQUITY	
Equity	
Board Designated Net Assets	
Land	109,500.00
Improvements	4,497.60
Total Board Designated Net Assets	113,997.60
Total Equity	113,997.60
TOTAL LIABILITIES & EQUITY	113,997.60

CHAPTER THREE - SALES OF HOUSES

When a house is sold, there are really two transactions to record:

1. Income from the sale and an increase of cash and/or receivable
2. Cost of the house sold and a decrease in other current assets

The transaction may be more complicated than that but at a minimum should include these two transactions. Additional components may include payment of taxes or other fees from proceeds, repayment of loans from proceeds, escrow transactions, etc. It is important to identify and record total income to the CLT from the sale of the house and then reduce the cash or receivable by the other parts of the transaction.

RECORD INCOME FROM THE SALE OF HOUSES

Record the "first transaction" on an invoice or, if cash is received, on a deposit form or a sales receipt. (See **CHAPTER FIVE - FEES, RENTS, AND RESERVES** to create a customer for this transaction so that it can also be used for monthly fee and reserve invoices.)

If recording the first transaction on an invoice or sales receipt use a service-type item called Sales of Houses. Link the item to the income account Proceeds from Sales of Houses.

However, it may be easiest to record the first transaction on a deposit form. Use the account Proceeds from Sales of Houses to record the income portion of the transaction. Include additional lines necessary to bring the total deposit to the correct amount.

In the following example, total income from the sale is $93,500. Of that, $20,000 is borrowed by the buyer as a deferred mortgage note payable upon sale of the house in the future by the current buyer. The cash portion of the sale is $73,500. The amount of cash received by the CLT is net of an escrow payment of $7,350 and a real estate tax payment of $1,837. These additional components are included with the first transaction because they impact the amount of cash received and deposited.

The amounts that reduce the cash received are entered as negative amounts so the total deposit is $64,313.

Record Cost of Houses Sold

Record the "second transaction" in a General Journal.

Put any other components of the sale in the General Journal because it is easier to determine whether a line is a debit or a credit. Usually the offset for additional components will be Proceeds from Sales of Houses, increasing or decreasing income depending upon the details of the transaction.

Continuing the example, after the second transaction recording the cost of the house sold and removing the house from Houses Held for Resale on the CLT's Balance Sheet, lines are added for two other components of the sale. Add lines to record the CLT's sales fee, which is included in the purchase price, against the income from the sale of the house. Add lines to record the portion of income from the sale of the house received in the form of a deferred mortgage note.

Because projects can span more than one fiscal year, grant income that subsidizes a project may be received in one year and sales of the project's houses may take place in another year. If the sale price of a house is less than the cost to build the house and grant proceeds were received in a prior year, a loss will show in the year of the sale.

Profit & Loss
January 2006

	◇ Jan 06 ◇
Income	
Proceeds from Sales of Houses	92,550.00
Sales Fees	950.00
Total Income	93,500.00
Cost of Goods Sold	
Cost of Houses Sold	95,000.00
Total COGS	95,000.00
Gross Profit	(1,500.00)
Expense	0.00
Net Income	▶ (1,500.00) ◀

CHAPTER FOUR - REVOLVING LOAN FUNDS AND OTHER ACCRUALS

REVOLVING LOAN FUNDS

There are three transactions related to a revolving loan:

1. Funding the fund
2. Lending funds out
3. Receiving repayment

Create a Class for each revolving loan fund, either in the board-designated section or the temporarily restricted section of the Class list. Each transaction for revolving loan fund activity should use the appropriate revolving loan fund Class.

FUNDING THE FUND

There are three ways to fund a revolving loan fund:

1. Community Land Trust
2. Grantor
3. Lender

COMMUNITY LAND TRUST FUNDED

When the CLT funds the revolving loan fund record a transfer of funds between net asset accounts. Enter a General Journal debiting Unrestricted Net Assets and crediting Board Designated Net Assets for revolving loan fund.

GRANTOR FUNDED

If a grantor funds a revolving loan fund there is a transaction resulting in income. In that case, use Make Deposits to record Grant income. Use the appropriate temporarily restricted Class for the income.

Add two additional lines transferring funds from Unrestricted Net Assets to Temporarily Restricted Net Assets for revolving loan fund. Use a negative number to debit Unrestricted Net Assets and use a positive number to credit Temporarily Restricted Net Assets on the Deposit form.

LENDER FUNDED

If the revolving loan fund is funded by a lender, record that on a deposit form the same way as a grant (above) except use a liability account instead of an income account. If the loan is forgivable, recognize income and zero out the liability when the loan is forgiven.

LENDING THE FUNDS OUT

Typically the funds are loaned out at the time of closing the sale of a house. Include the lending transaction in the General Journal recording the cost of the house sold and reducing Houses Held for Resale (see Sales of Houses above). Debit Deferred Mortgages Receivable (Other Asset) and credit Proceeds from Sales of Houses. Select the appropriate revolving loan fund Class for the transaction so the receivable can be tracked by the various revolving loan funds.

RECEIVING REPAYMENT

When the loan is repaid, record a Deposit to reduce Deferred Mortgages Receivable. If a portion of the repayment is interest or appreciation, add a line to record that to income in Deferred Mortgage Appreciation account. Select the appropriate revolving loan fund Class.

REAL ESTATE TAX ACCRUAL AND PAYMENT

Monthly fees are designed to include the cost of real estate tax applicable to each leasehold. Therefore, the CLT records income that will cover real estate taxes. Payment of the taxes is an expense on the books of the CLT.

Accrue real estate taxes monthly to spread the cost evenly over the year using a memorized General Journal. Debit the expense subaccount Real Estate Taxes (under Operating & Property Management) for each property for one-twelfth of the annual tax and selecting the appropriate Class for each property. Credit Accrued Real Estate Taxes (other current liabilities type account).

Account	Debit	Credit	Memo	Name		Class
Operating & Property Manage…	33.97		Accrue property tax			303 113 Alder Street
Operating & Property Manage…	307.88		Accrue property tax			210 Opal Commons
Operating & Property Manage…	23.62		Accrue property tax			302 9 Seaview Street
Operating & Property Manage…	112.11		Accrue property tax			220 Oberon Wood
Operating & Property Manage…	67.85		Accrue property tax			221 Oberon Meadow
Operating & Property Manage…	56.97		Accrue property tax			230 Madrona
Operating & Property Manage…	464.54		Accrue property tax			215 Bonnie Brae
Operating & Property Manage…	416.93		Accrue property tax			402 Reddick Offices
Accrued Real Estate Taxes		1,483.87	Accrue property tax			
Totals	1,483.87	1,483.87				

When payments are due in April and October, enter a vendor bill or write a check reducing the Accrued Real Estate Taxes liability account.

Account	Amount	Memo	Customer:Job		Class
Accrued Real Estate Taxes	8,903.18				

SHORT-TERM LOANS TO CLT

When a CLT borrows funds for a short term (one year or less), record the liability as a vendor bill to the accounts payable account called Loans from Supporters Payable. In the coding section, select the cash account that the borrowed funds were deposited into. **Do not record a deposit for the transaction.**

Accrue interest to the loan in the same way, by recording a vendor bill. In the coding section, select the appropriate expense account for interest. **If you capitalize the interest, be sure to use the Item tab on the vendor bill and the appropriate customer:job (see Record Project Development Costs above).**

Note that if you use the alternate method for capitalizing costs described in the **APPENDIX**, you will not need to use the Items tab for capitalized interest.

CHAPTER FIVE - FEES, RENTS, AND RESERVES

SUMMARY OF PROCESS

Use groups of memorized invoices to record monthly fees and rents and to increase the appropriate reserve equity accounts. Add each current owner or tenant as a Customer.

Accrue all fees and rents into an accounts receivable account named Fees and Rents.

Use the following income accounts to report fees and rents:

1. Lease Fees
2. Rents
3. Rental Damage and Late Fees

On the monthly invoices use items, which are linked to appropriate income or expense accounts, to report fees in detail. Examples are as follows:

1. Leasehold Fees - links to Lease Fees income account
2. Reserve Fees [various] - links to Lease Fees income account
3. Rents (Residential) - links to Rents income account
4. Rents (Commercial) - links to Rents income account
5. Rental Damage - links to Rental Damage and Late Fees income account
6. Late Fees - links to Rental Damage and Late Fees income account
7. Utility Fees [various] - links to appropriate expense account

When necessary, use a credit memo to credit an account, selecting the appropriate item, e.g. Water Use [a utility fee] to refund under-usage of water.

Also on the monthly invoices use items, which are linked to appropriate equity accounts, to transfer fees for reserves from Unrestricted Net Assets to the appropriate board designated net asset categories. Examples are as follows:

1. Unrestricted Net Assets - links to Unrestricted Net Assets equity account
2. Neighborhood Ops - links to appropriate Board Designated Reserves equity account
3. Property (LT) - links to appropriate Board Designated Reserves equity account
4. House Structural Maintenance Fund - links to appropriate Board Designated Reserves equity account

Use Vendor bills to record expenditures. When an expenditure is appropriately charged against a reserve, add lines to the vendor bill to reduce the appropriate reserve(s).

An advantage of using the method described here for recording transactions affecting reserves is that it eliminates the extensive use of General Journals in QuickBooks, resulting in audit trails that are easier to follow.

CUSTOMERS FOR FEES AND RESERVES

Create a Customer for the current owner of each leasehold lot and tenant of each rental unit. It may be helpful to include the project name in the Customer name. Another option is to create a Customer Type for each project and assign the appropriate Type to each Customer:

1. From the **Customer** menu, select **Customer:Job List**
2. Click the **Customer:Job** button in the lower left corner
3. Select **New**

4. Enter the name and address

5. Click the **Additional Info** tab

6. In the **Type** field, enter the project name (if necessary, click **Add New** to add it)

7. Click **OK**

When the current owner or tenant changes, inactivate the Customer and create a new one for the new owner or tenant.

ITEMS FOR FEES AND RESERVES

Create items for recording fees and reserve transfers on monthly invoices:

1. From the **Lists** menu, select **Item List**

2. Click the **Item** button in the lower left corner

3. Select **New**

4. From the **Type** drop-down menu, select **Service**

5. Enter the name of the item

6. If the item is a subitem, click the **Subitem of** box and select the "header" item from the drop-down menu

7. Enter the description

8. From the **Account** drop-down menu, select the appropriate account to link the item to

9. Click **OK**

Create all the items in the **ITEMS FOR FEES AND RESERVES** table in **CHAPTER ONE - UNIFORM LISTS** and link each to the account noted in the table.

RECORD A MONTHLY INVOICE FOR FEES

To record a monthly invoice for leasehold fees, water usage, and reserves:

1. From the **Customers** menu, select **Create Invoices**
2. In the **Customer:Job** field, from the drop-down list select the appropriate **Customer**
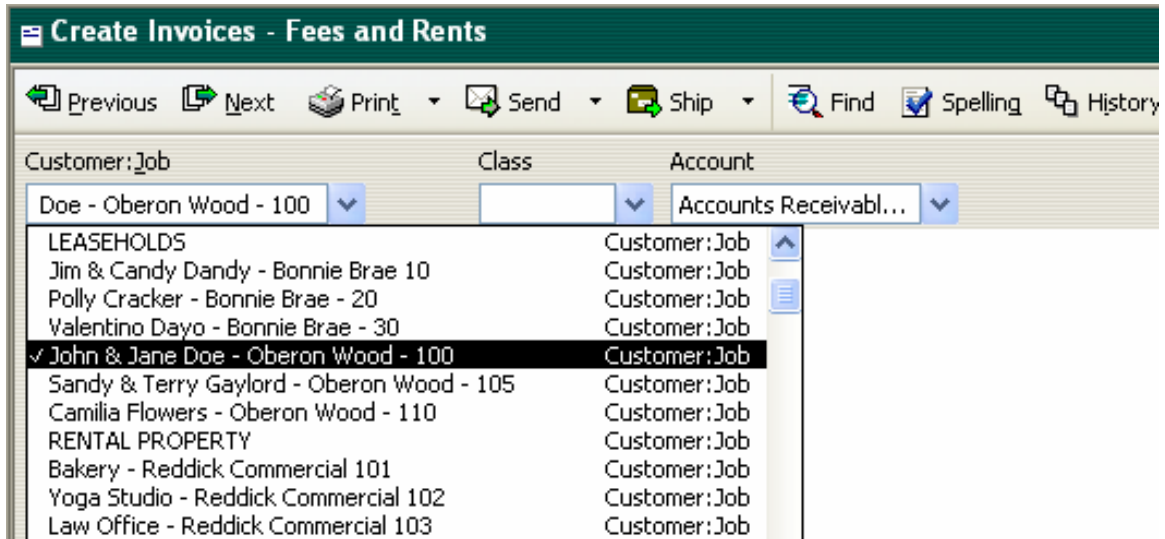
3. Press **Tab** to move through the data entry form
4. **Tab** to the **Class** field and from the drop-down list select the appropriate project
5. **Tab** to the **Account** field and select the **Accounts Receivable:Fees and Rents** account
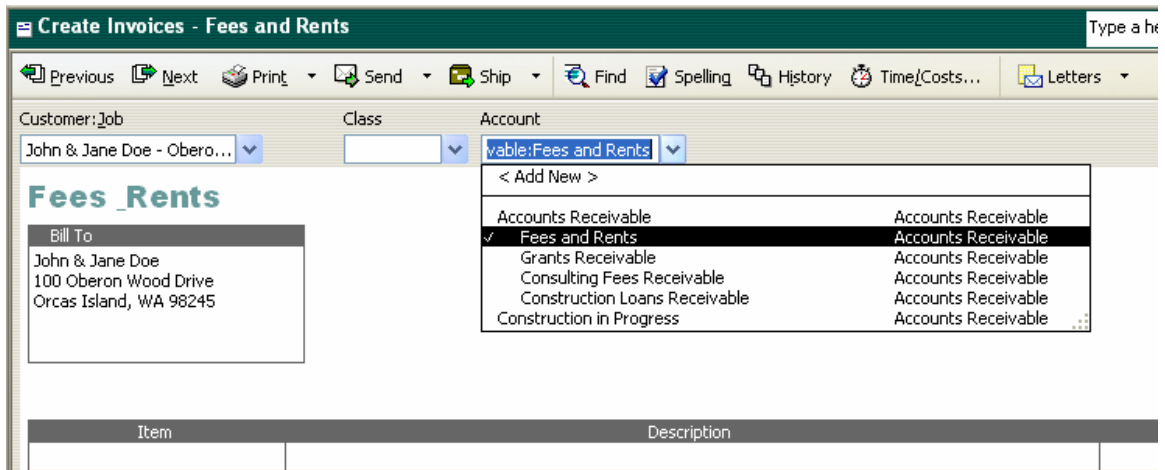
6. **Tab** to the **Template** field and select the appropriate template
7. **Tab** to the date field and enter the date for the invoice
8. **Tab** to the next field and enter a **reference number** or accept the default

9. **Tab** to the next field where the address displays (if you add or change the address you will get a message before saving the invoice about saving the changes)

10. **Tab** to the **Item** field and from the drop-down list select the **Item** to record a leasehold fee

11. **Tab** to the next field and accept the default **Item description**

12. **Tab** to the **Class** field and from the drop-down list select the appropriate project

13. **Tab** to the next field and enter the **amount** of the fee

14. **Tab** to the next line and enter the remaining fees

15. After each reserve fee, enter the following two lines:

    a. Select the **Item** to transfer the amount of the reserve fee out of Unrestricted Net Assets (use a negative number because this is a debit)

    b. Select the **Item** to transfer the amount of the reserve fee into the appropriate board-designated reserve net asset class (use a positive number because this is a credit)

16. Note the boxes at the lower left: **To be printed** and **To be e-mailed** and click if appropriate

17. Click **Save & Close**

To record a monthly invoice for rental fees, follow the same steps. Use the appropriate Customer and the appropriate project Class.

Group and Memorize Monthly Invoices for Fees

The most efficient way to record monthly fees for owners and tenants is to memorize each invoice and set it up to record automatically. When there are many memorized invoices, they can be grouped. Create a group for each project. The instructions for recording the memorized transactions are assigned to the group and affect all the memorized transactions assigned to the group.

To create a memorized transaction group:

1. From the Lists menu, select **Memorized Transaction List**
2. Click the **Memorized Transaction** button at the lower left corner of the screen
3. Select **New Group**
1. Use the development project name as the group **Name**
2. Click **Automatically Enter**
3. From the **How Often** field, select **Monthly** from the drop-down list
4. Select the next date for recording a new invoice
5. Enter the number of invoices to be recorded through the remainder of the year
6. Click **OK**

To memorize invoices into a group:

1. Open the invoice you want to memorize (or you can memorize the invoice before you save and close it)
2. Open the **Customer** list and highlight the appropriate **Job**
3. Click the **Reports** button at the bottom of the screen and select **Quick Report**
4. Find the invoice you want to memorize and double-click to open it
5. From the **Edit** menu, select **Memorize Invoice** to pop up a **Memorize Transaction** window
6. Accept the default **Job** name for the Name
7. Click **With Transactions in Group**
8. From the **Group Name** field, select the appropriate group from the drop-down list

9. Click **OK**
10. **Close** the Invoice by clicking the red X at the upper right corner

RECEIVE PAYMENTS ON INVOICES

When income is accrued by recording an invoice, it is very important to record the payment subsequently received in the proper manner. Not doing so will make the accounting records incorrect by recording the same income once as an invoice and a second time as a sales receipt or deposit. The correct way to record a payment on account is from the **Customer** menu select **Receive Payments**.

To record a payment received on account:

1. From the **Customer**, menu, select **Receive Payments**
2. From the **Received From** field, drop down the list and select the Customer from whom a payment on account was received
3. Note whether the account in the **A/R Account** field is Accounts Receivable:Fees and Rents and change it if necessary
4. **Tab** to the **Amount** field and enter the **amount** received
5. **Tab** to the next field and enter the **Date** of the payment
6. **Tab** through the next few fields, entering information as necessary
7. Note that QuickBooks has listed all open invoices in the columnar section in the lower half of the **Receive Payments** window
8. Note also that QuickBooks has placed **checkmarks** next to invoices, starting with the oldest first, that the payment has likely paid down (you can change this default)
9. Once the payment is properly applied, click **Save & Close**

RECEIVE A PAYMENT IN ADVANCE

If an owner or tenant pays fees in advance, record the payment as follows:

1. Follow the steps 1 through 5 above
2. In the pop-up box that appears in the lower left corner, accept the default **Leave the credit to be used later**
3. Click **Save & Close**

4. Click **OK** in the Payment Credit box that pops up

To apply the advance payment after the memorized invoice posts:

1. From the **Customer**, menu, select **Receive Payments**
2. From the **Received From** field, drop down the list and select the "Job" whose advance payment is to be applied
3. Note whether the account in the **A/R Account** field is Accounts Receivable:Fees and Rents and change it if necessary

4. Click the **Discount & Credits** button at the lower right portion of the window to display the **Discount and Credits** window

5. Put a check next to the credit you want to apply to the invoice (or accept the default)
6. Click **Done**

7. Click **Save & Close**

When you record Receive Payments, the money is recorded in the Undeposited Funds account. To "transfer" the money from the Undeposited Funds account to the appropriate bank account you must go to the **Banking** menu and select **Make Deposits**. The first step is to enter a payment into **Receive Payments**. The second step is to **Make Deposit**. These two steps are analogous to first processing checks received and then taking the checks to the bank. You would not leave the checks in a desk drawer but, of course, take them to the bank and make a deposit.

Reporting Fees

A concise report of monthly fees invoiced to owners and tenants is a Sales by Item Summary report:

1. From the **Reports** menu, select **Sales** and then **Sales by Item Summary**
2. Set the date range
3. Click the **Modify Report** button
4. Click the **Filters** tab
5. In the **Choose Filter box**, highlight **Item**
6. From the **Item** field drop down the list and choose **Selected (or Multiple) Items**
7. A list of items will pop up
8. Click each item that is a fee charged on a monthly invoice to owners and tenants (these items link to fee and rent income accounts)
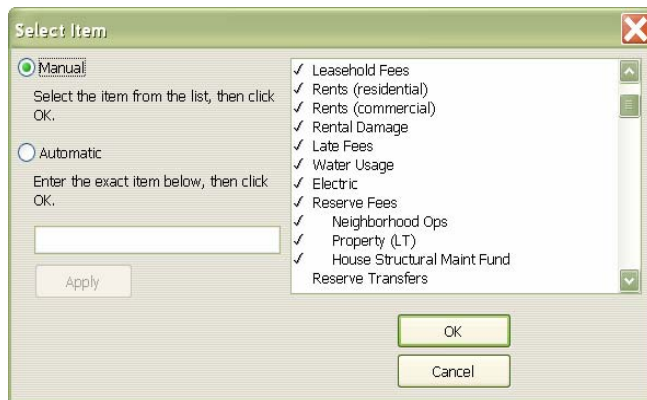
9. Click **OK**
10. Click the **Header/Footer** tab
11. In the **Report Title** field name the report **Fees and Rents**
12. Click **OK** to display the report

Fees and Rents
January through March 2006

		Jan - Mar 06		
	Qty	Amount	% of Sales	Avg Price
Service				
Leasehold Fees	15 ◄	1,461.00	27.3%	97.40
Rents (commercial)	9	2,550.00	47.6%	283.33
Water Usage	24	378.00	7.1%	15.75
Electric	9	228.00	4.3%	25.33
Reserve Fees				
Neighborhood Ops	15	297.00	5.5%	19.80
Property (LT)	33	273.00	5.1%	8.27
House Structural Maint Fund	15	165.00	3.1%	11.00
Total Reserve Fees		735.00	13.7%	
Total Service		5,352.00	100.0%	
TOTAL		**5,352.00**	**100.0%**	

If you want to see only the Amount column, export the report to Excel and delete the other columns.

These amounts are reported on a Profit & Loss report but may not be evident on the face of the report. Utility fees are netted against the related expense. Other fees combine on certain income line items to keep the Profit & Loss report concise. They can be isolated by filtering the report on transaction type to display only data from Invoices.

REPORTING FUNDED RESERVES

To report reserves by project:

1. From the **Reports** menu, select **Custom Summary Report**
2. The **Modify Report** window automatically opens to the **Display** tab
3. Set the date range
4. From the **Display columns by** field, select **Item detail**
5. From the **Display rows by** field, select **Class**
6. Click the **Filters** tab
7. In the **Choose Filter box**, highlight **Account**
8. From the **Account** field drop down the list and choose **All Accounts**
9. In the **Choose Filter box**, highlight **Item**
10. From the **Item** field drop down the list and choose **Selected (or Multiple) Items**
11. A list of items will pop up
12. Click each item that is a reserve transfer to a reserve fund (do not include transfers to/from Unrestricted Net Assets)
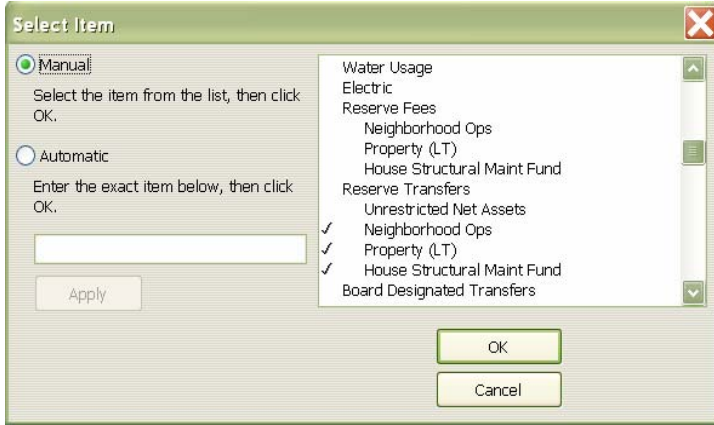
13. Click **OK**
14. Click the **Header/Footer** tab
15. In the **Report Title** field name the report **Board-Designated Reserves**
16. Click **OK** to display the report

03/10/06 Accrual Basis	Board-Designated Reserves As of March 31, 2006			
	Neighborhood Ops (Reserve Transfers)	Property (LT) (Reserve Transfers)	House Structural Maint Fund (Reserve Transfers)	Total Reserve Transf...
215 Bonnie Brae	108.00	54.00	48.00	210.00
220 Oberon Wood	189.00 ▶	90.00 ◀	117.00	396.00
402 Reddick Offices	0.00	129.00	0.00	129.00
TOTAL	297.00	273.00	165.00	735.00

The report above shows reserves by project and should match the related reserve accounts in the equity section of the Balance Sheet. The equity balances are increased by fees invoiced and reduced by expenditures charged to the reserves.

To report reserves that stay with a specific lot:

1. From the **Reports** menu, select **Custom Summary Report**
2. The **Modify Report** window automatically opens to the **Display** tab
3. Set the date range
4. From the **Display columns by** field, select **Item detail**
5. From the **Display rows by** field, select **Customer**
6. Click the **Filters** tab
7. In the **Choose Filter box**, highlight **Account**
8. From the **Account** field drop down the list and choose **All Accounts**
9. In the **Choose Filter box**, highlight **Item**
10. From the **Item** field drop down the list and choose **Reserve Transfers:House Structural Maint Fund**
11. Click **OK**
12. Click the **Header/Footer** tab
13. In the **Report Title** field name the report **Reserves per Lot**
14. Click **OK** to display the report

03/10/06

Accrual Basis

Reserves Funded per Lot
As of March 31, 2006

	House Structural Maint Fund (Reserve Transfers)	Total Reserve Transfers
Jim & Candy Dandy - Bonnie Brae 10	24.00	24.00
Polly Cracker - Bonnie Brae - 20	24.00	24.00
John & Jane Doe - Oberon Wood - 100	39.00	39.00
Sandy & Terry Gaylord - Oberon Wood - 105	39.00	39.00
Camilia Flowers - Oberon Wood - 110	39.00	39.00
TOTAL	165.00	165.00

The report above shows reserves that stay with each lot and should match the related reserve account in the equity section of the Balance Sheet. The equity balance is increased by fees invoiced and reduced by expenditures charged to the reserve.

Another way to report funded reserves is to print a Balance Sheet filtered for the Board Designated Net Assets reserves accounts.

Balance Sheet
As of March 31, 2006

	Mar 31, 06
ASSETS	0.00
LIABILITIES & EQUITY	
Equity	
Board Designated Net Assets	
Reserves	
Neighborhood Ops	297.00
Property (LT)	(3,552.00)
House Structural Maint Fund	165.00
Total Reserves	(3,090.00)
Total Board Designated Net Assets	(3,090.00)
Total Equity	(3,090.00)
TOTAL LIABILITIES & EQUITY	(3,090.00)

To view detail for a reserve by project, drill into a reserve account and modify the columns on the Transaction by Account report to view Classes and amounts.

Transactions by Account
As of March 31, 2006

Date	Class	Debit	Credit	Balance
01/01/2006	402 Reddick Offices		12.00	76.00
01/01/2006	402 Reddick Offices		15.00	91.00
01/28/2006	220 Oberon Wood	3,825.00		(3,734.00)
02/01/2006	220 Oberon Wood		10.00	(3,724.00)
02/01/2006	220 Oberon Wood		10.00	(3,714.00)
02/01/2006	220 Oberon Wood		10.00	(3,704.00)
02/01/2006	215 Bonnie Brae		9.00	(3,695.00)
02/01/2006	215 Bonnie Brae		9.00	(3,686.00)
02/01/2006	402 Reddick Offices		16.00	(3,670.00)
02/01/2006	402 Reddick Offices		12.00	(3,658.00)
02/01/2006	402 Reddick Offices		15.00	(3,643.00)
03/01/2006	215 Bonnie Brae		9.00	(3,634.00)
03/01/2006	215 Bonnie Brae		9.00	(3,625.00)
03/01/2006	220 Oberon Wood		10.00	(3,615.00)
03/01/2006	220 Oberon Wood		10.00	(3,605.00)
03/01/2006	220 Oberon Wood		10.00	(3,595.00)
03/01/2006	402 Reddick Offices		16.00	(3,579.00)
03/01/2006	402 Reddick Offices		12.00	(3,567.00)
03/01/2006	402 Reddick Offices		15.00	(3,552.00)
Total Property (LT)		3,825.00	273.00	(3,552.00)

Export the report to Excel.

Then sort on the Class column.

	Date	Class	Debit	Credit	Balance
	CLTA-SJI Uniform QuickBooks File				2:10 PM
	Transactions by Account				03/03/2006
	As of March 31, 2006				Accrual Basis
4	Date	Class	Debit	Credit	Balance
5	Board Designated Net Assets				0.00
6	Reserves				0.00
7	Property (LT)				0.00
8	01/01/2006	215 Bonnie Brae		9.00	9.00
9	01/01/2006	215 Bonnie Brae		9.00	18.00
10	01/01/2006	220 Oberon Wood		10.00	28.00
11	01/01/2006	220 Oberon Wood		10.00	38.00
12	01/01/2006	220 Oberon Wood		10.00	48.00
13	01/01/2006	402 Reddick Offices		16.00	64.00
14	01/01/2006	402 Reddick Offices		12.00	76.00
15	01/01/2006	402 Reddick Offices		15.00	91.00
16	01/28/2006	220 Oberon Wood	3,825.00		(3,734.00)
17	02/01/2006	220 Oberon Wood		10.00	(3,724.00)
18	02/01/2006	220 Oberon Wood		10.00	(3,714.00)
19	02/01/2006	220 Oberon Wood		10.00	(3,704.00)
20	02/01/2006	215 Bonnie Brae		9.00	(3,695.00)
21	02/01/2006	215 Bonnie Brae		9.00	(3,686.00)
22	02/01/2006	402 Reddick Offices		16.00	(3,670.00)
23	02/01/2006	402 Reddick Offices		12.00	(3,658.00)
24	02/01/2006	402 Reddick Offices		15.00	(3,643.00)
25	03/01/2006	215 Bonnie Brae		9.00	(3,634.00)
26	03/01/2006	215 Bonnie Brae		9.00	(3,625.00)
27	03/01/2006	220 Oberon Wood		10.00	(3,615.00)
28	03/01/2006	220 Oberon Wood		10.00	(3,605.00)
29	03/01/2006	220 Oberon Wood		10.00	(3,595.00)
30	03/01/2006	402 Reddick Offices		16.00	(3,579.00)
31	03/01/2006	402 Reddick Offices		12.00	(3,567.00)
32	03/01/2006	402 Reddick Offices		15.00	(3,552.00)
33	Total Property (LT)		3,825.00	273.00	(3,552.00)

	Date	Class	Debit	Credit
1	**CLTA-SJI Uniform QuickBooks File**			
2	**Transactions by Account**			
3	As of March 31, 2006			
4	Date	Class	Debit	Credit
5	Board Designated Net Assets			
6	Reserves			
7	Property (LT)			
8	01/01/2006	215 Bonnie Brae		9.00
9	01/01/2006	215 Bonnie Brae		9.00
10	02/01/2006	215 Bonnie Brae		9.00
11	02/01/2006	215 Bonnie Brae		9.00
12	03/01/2006	215 Bonnie Brae		9.00
13	03/01/2006	215 Bonnie Brae		9.00
14	01/01/2006	220 Oberon Wood		10.00
15	01/01/2006	220 Oberon Wood		10.00
16	01/01/2006	220 Oberon Wood		10.00
17	01/28/2006	220 Oberon Wood	3,825.00	
18	02/01/2006	220 Oberon Wood		10.00
19	02/01/2006	220 Oberon Wood		10.00
20	02/01/2006	220 Oberon Wood		10.00
21	03/01/2006	220 Oberon Wood		10.00
22	03/01/2006	220 Oberon Wood		10.00
23	03/01/2006	220 Oberon Wood		10.00
24	01/01/2006	402 Reddick Offices		16.00
25	01/01/2006	402 Reddick Offices		12.00
26	01/01/2006	402 Reddick Offices		15.00
27	02/01/2006	402 Reddick Offices		16.00
28	02/01/2006	402 Reddick Offices		12.00
29	02/01/2006	402 Reddick Offices		15.00
30	03/01/2006	402 Reddick Offices		16.00
31	03/01/2006	402 Reddick Offices		12.00
32	03/01/2006	402 Reddick Offices		15.00
33	Total Property (LT)		3,825.00	273.00

You can insert lines and add subtotals for each project.

SPENDING FUNDED RESERVES

When reserves are expended it is important to reduce the balances in the reserves in the equity section of the Balance Sheet.

Any reserve expenditures that meet capitalization requirements must be capitalized. See* Chapter Two - Project Development and Capitalization *for procedures to record and capitalize project costs.

SPENDING PROJECT RESERVES

When you incur costs that spend down a funded reserve for a particular project, enter a vendor bill to record the costs:

1. From the **Vendors** menu, select **Enter Bills**
2. If there is more than on accounts payable account, select one from the **A/P Account** drop-down list
3. In the **Vendor** field, drop down the vendor list to select the **vendor** or enter the vendor name
4. **Tab** between fields on the form
5. In the **Date** field enter the **date printed on the bill**
6. **Tab** to the next field and enter a **reference number** if necessary
7. **Tab** to the next field and enter the **amount**
8. **Tab** to the **Bill Due** field and accept the default or enter another **due date**

    The default due date for all vendors is 10 days after the bill date and can be changed in **Preferences \ Purchases & Vendors**. It can then be overridden for individual vendors by editing vendor information (**Vendor List, Edit Vendor, Additional Info tab**). It can also be overridden in the **Terms** field.
9. **Tab** to the next field and, if necessary, select the **terms** from the drop-down menu or **Add New** terms
10. **Tab** to the coding section of the window
11. For costs that will be capitalized, click on the **Items** tab in the coding section

12. In the **Item** column on the **Item** tab drop down the item list and select the **item** associated with the appropriate project development expense account

13. **Tab** to the next column and accept the **description**
14. **Tab** to the next column and, if applicable, enter a **quantity**
15. **Tab** to the next column and, if applicable, enter a **rate**
16. **Tab** to the next column and accept or enter the **amount**
17. **Tab** to the next column, drop down the **Customer:Job** list and select the appropriate project (Job) under the **Project Development** customer
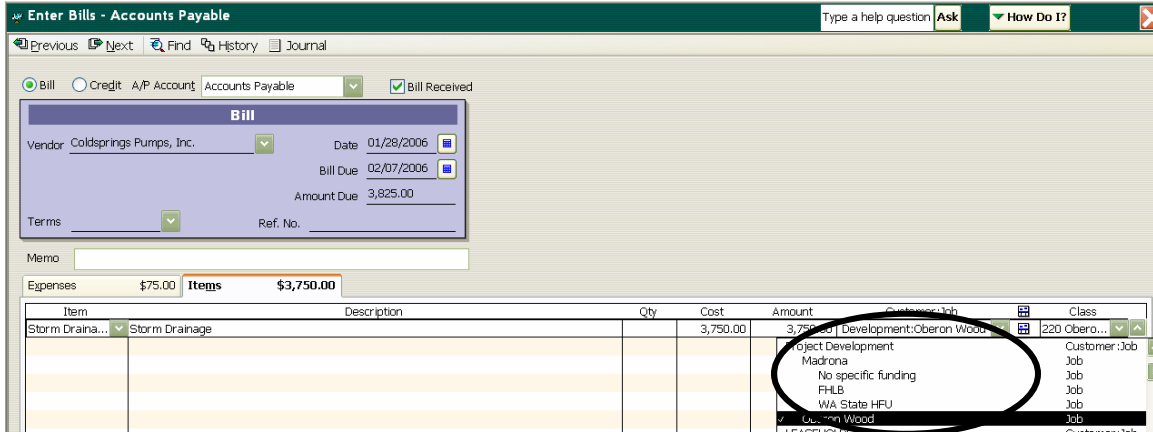
18. **Tab** to the next column and drop down the **Class** and select the appropriate Class for the project
19. Add additional lines as needed for costs to be capitalized
20. If there are costs on the bill also charged against the reserve that will <u>not</u> be capitalized, click the **Expenses** tab and enter them there

59
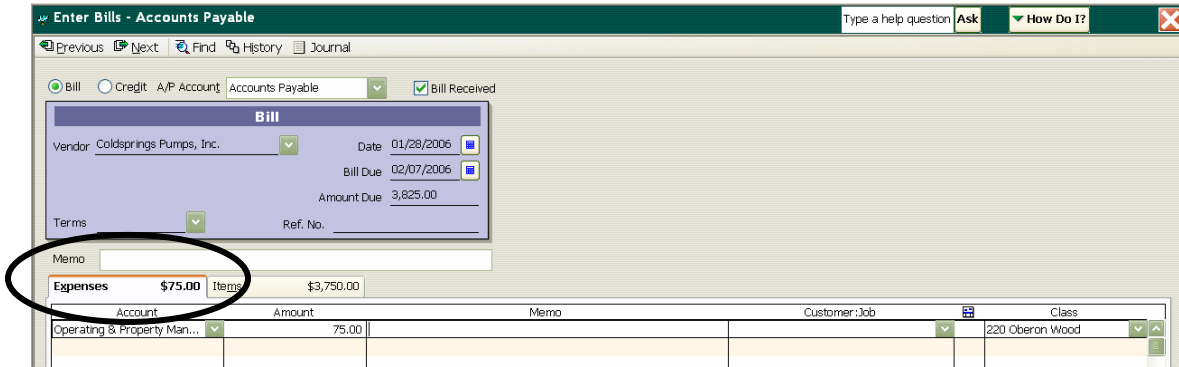
21. After entering all costs (capital and non-capital) that will be charged to the reserve, add the following two lines on the Items tab for the <u>total amount charged to the reserve</u>

   a. Select the **Item** to transfer the reserve expenditure out of the appropriate board-designated reserve net asset class (use a positive number because this is a debit)

   b. Select the **Item** to transfer the reserve expenditure into Unrestricted Net Assets (use a negative number because this is a credit)

22. Click **Save & Close**

Note that other methods for expending funded reserves for a particular project are **Write Checks** and **Record Credit Card Charges**, both accessed from the **Banking** menu. If either or both of these methods are used (in addition to vendor bills or instead of), the process is the same as above. Click on the **Items** tab and record costs there, using items, rather than on the **Expenses** tab.

Remember to capitalize any costs that are capital costs (see Chapter Two - Project Development and Capitalization *for procedures to record and capitalize project costs).*

The effect of accumulating reserves from monthly fees and rents invoices (in the credit column) and expending reserves on a vendor bill (in the debit column) can be seen by drilling into the appropriate equity account on the Balance Sheet and filtering for a specific project (Class).

Although you cannot report a Balance Sheet by Class, you can see Balance Sheet accounts by Class on transaction detail reports or by drilling into an account balance on a Balance Sheet. Therefore, always use a Class in transactions that affect Balance Sheet accounts whose balance you want to view by Class.

If you are using the alternate capitalization method, follow the instructions below when spending project reserves but choose the appropriate project development expense accounts for costs that will be capitalized. There is no need to enter the specific house/owner in the customer field.

Spending Reserves that Remain with a House

When you incur costs that spend down a funded reserve for a specific house, enter a vendor bill to record the costs in the same manner as spending funded reserves for a particular project, except that these expenditures typically are not capital costs:

1. Follow steps 1 – 10 in the Spending Project Reserves section above

2. On the **Expenses** tab in the coding section enter one or more lines for the expenditure, selecting expense accounts from the Operating & Property Management section of expenses

3. In the **Customer:Job** field select the specific house/owner against whose reserve the expense is charged
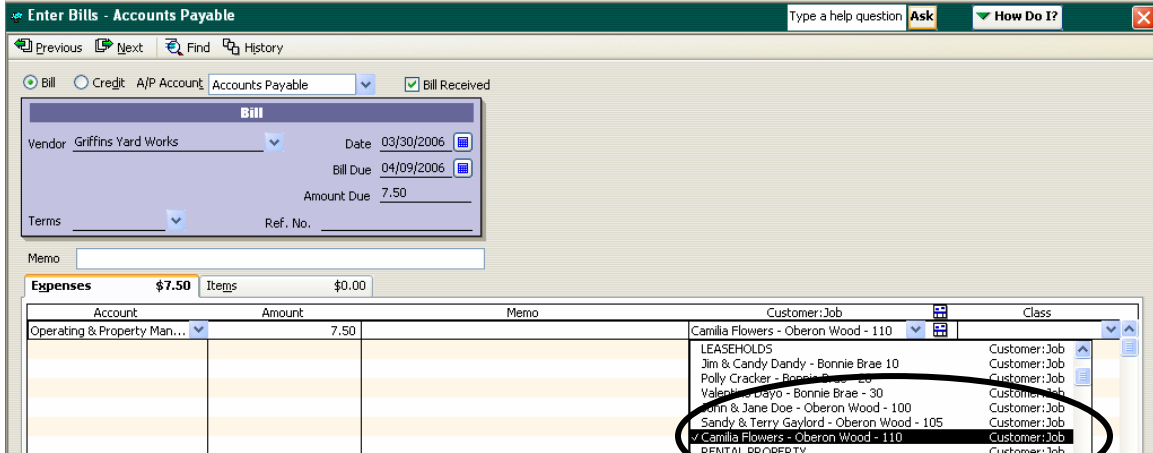
4. In the **Class** field select the appropriate Class for the project
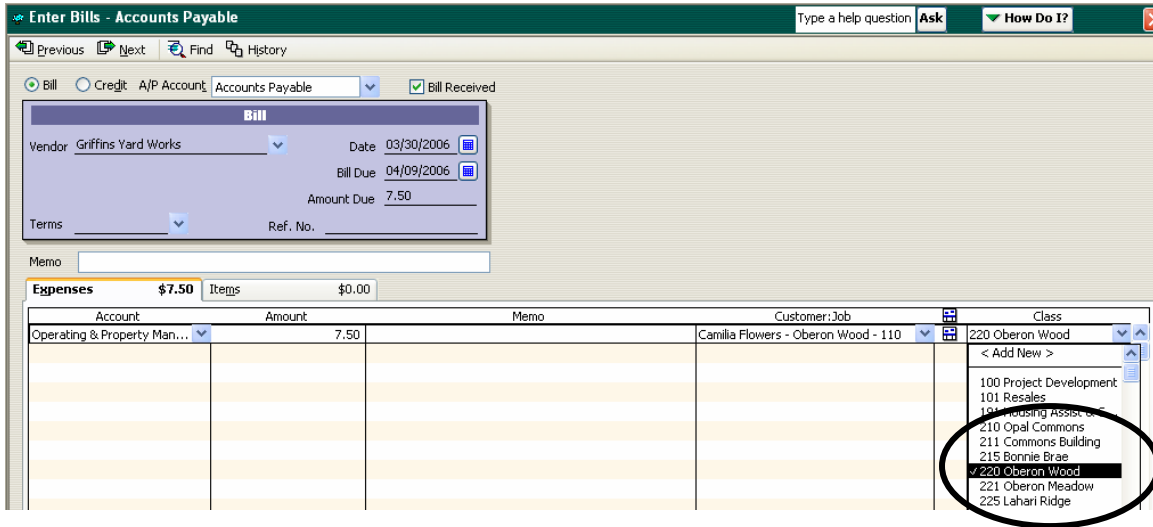
5. After entering all expenses that will be charged to the reserve, add the following two lines on the Items tab for the <u>total amount charged to the reserve</u> using the same **Customer:Job** and **Class** as the expense lines:

   a. Select the **Item** to transfer the reserve expenditure out of the appropriate board-designated reserve net asset class (use a positive number because this is a debit)

b. Select the **Item** to transfer the reserve expenditure into Unrestricted Net Assets (use a negative number because this is a credit)

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6. Click **Save & Close**

Note that other methods for expending funded reserves for a specific house are Write Checks and Record Credit Card Charges, both accessed from the Banking menu. If either or both of these methods are used (in addition to vendor bills or instead of), the process is the same as above.

The effect of accumulating reserves from monthly fees and rents invoices (in the credit column) and expending reserves on a vendor bill (in the debit column) can be seen by drilling into the appropriate equity account on the Balance Sheet and filtering for a specific Customer.

Transactions by Account
As of March 31, 2006

Type	Date	Name	Class	Debit	Credit	Balance
Board Designated Net Assets						0.00
Reserves						0.00
House Structural Maint Fund						0.00
Invoice	01/01/2006	Camilia Flowers - Oberon Wood - 110	220 Oberon Wood		13.00	13.00 ◄
Invoice	02/01/2006	Camilia Flowers - Oberon Wood - 110	220 Oberon Wood		13.00	26.00
Invoice	03/01/2006	Camilia Flowers - Oberon Wood - 110	220 Oberon Wood		13.00	39.00
Bill	03/30/2006	Camilia Flowers - Oberon Wood - 110	220 Oberon Wood	7.50		31.50
Total House Structural Maint Fund				7.50	39.00	31.50

Although you cannot report a Balance Sheet by Customer, you can see Balance Sheet accounts by Customer on transaction detail reports or by drilling into an account balance on a Balance Sheet. Therefore, always use a Customer in transactions that affect the equity account for board designated reserves for specific houses.

CHAPTER SIX - RESTRICTED CONTRIBUTIONS AND NET ASSETS

Net assets are the net worth of the not-for-profit organization. The net assets are reported in the third section of the Balance Sheet. Normally you do not record transactions to the net assets account. The balance in net assets accumulates at the end of each year when the books are "closed." That process automatically transfers the surplus or deficit (bottom line of the Profit & Loss report) into the net asset account. Therefore the surplus or deficit is called Change in Net Assets. A surplus at year-end increases net assets and a deficit at year-end decreases net assets.

It is essential that you assign a Class to every transaction that affects an income or expense account. When restricted contributions and the expenditure or release of the restricted contributions are tracked as Classes, the net of the accumulated income and expenses charged to a Class is the net asset balance for that restricted Class.

RECORD RESTRICTED CONTRIBUTIONS

A contribution may be recorded using an invoice (pledge), a sales receipt, or a deposit. Regardless of the method used, when recording a contribution (including <u>private</u> grants) restricted by the donor, use a Class that reflects the nature of the restriction and do not use that Class for anything other than transactions related to that restricted category.

RELEASE RESTRICTED NET ASSETS

Contributions that are received with temporary purpose or time restrictions placed on them by the donor must be released from those restrictions when the restrictions expire. Purpose restrictions expire when the purpose for which the contribution was made is met (by spending the money for that purpose). Time restrictions expire when the time before the money can be spent has elapsed.

To release restricted net assets, it is first necessary to determine the total of restricted net assets that has not yet been released. You can use a custom report to determine that. Then review all expenses and capital expenditures that meet the restricted purpose, being sure to subtract any that cannot be charged to the restricted contributions, e.g., expenses charged to government contracts. The remaining expenditures that meet the purpose restriction, to the extent of remaining restricted net assets, should be released.

The following procedures outline the process for releasing restricted net assets that have expired.

1. Identify remaining (unexpired) restricted net assets

2. Determine whether restrictions have been met

3. Release the restricted net assets from the restrictions if the restrictions have been met (expired)

First, identify any unreleased restricted net assets:

1. To create a custom net assets report, from the **Reports** menu, select **Custom Summary Report**
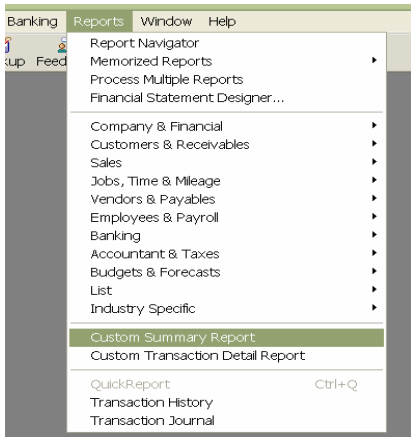
2. When the **Modify Report** window opens to the **Display tab**, press **Tab** move into the **From** field in the **Report Date Range** section and press the **Delete** key

3. **Tab** into the **To** field and enter the end date of the period

4. In the **Display rows by** field, drop down the list and select **Class**
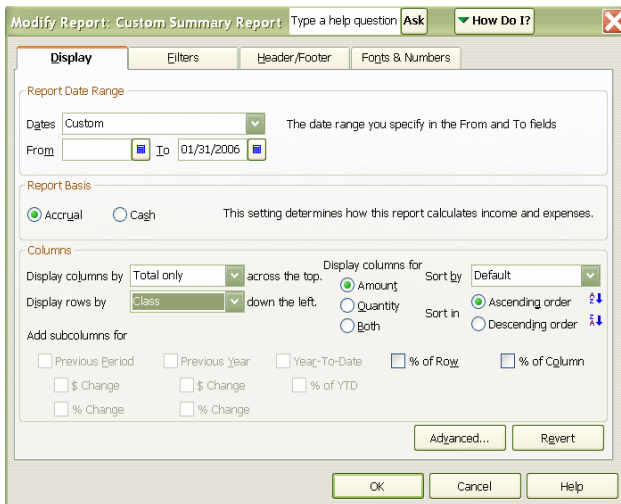
5. Click on the **Filters tab**

6. In the **Choose Filter** section, select **Account** from the **Filter** list

7. From the **Account** drop down list, select **All equity and income/expense**
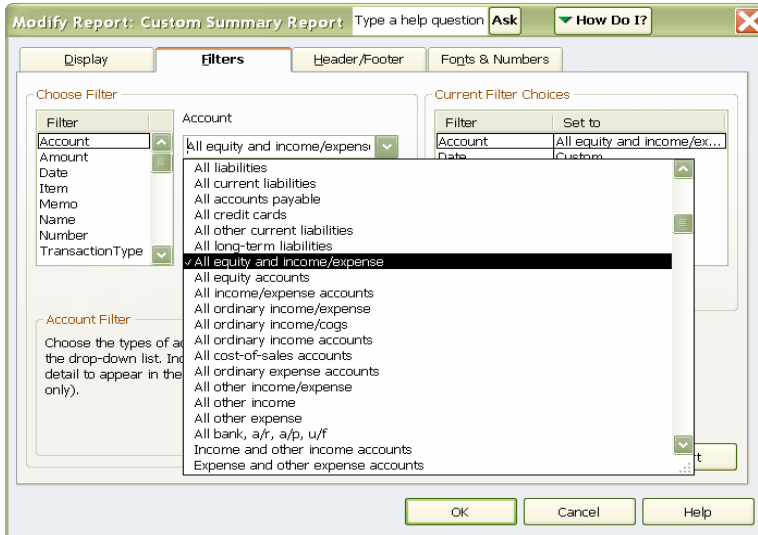
8. In the **Choose Filter** section, select **Class** from the **Filter** list

9. From the **Class** drop-down list, select **Selected (or Multiple) Classes**

10. Click each Class used for restricted contributions

11. Click **OK**

12. Click **OK** to display the report

Second, determine whether the restrictions have been met. This may involve reviewing expenses in certain Classes that would meet a particular restricted purpose. Because all capital expenditures "pass through" the expense accounts in the project development section of the Chart of Accounts, a review of expenses should be sufficient for identifying expenditures of restricted contributions. So long as the process of releasing restricted contributions is recorded at least at the end of each fiscal year, if not more frequently, all expenditures of restricted contributions can be found by reviewing current fiscal year expenses.

Profit & Loss
January 2006

	Jan 06
Grants	100,000.00
Total Income	176,067.00
Cost of Goods Sold	
Cost of Houses Sold	85,000.00
Total COGS	85,000.00
Gross Profit	91,067.00
Expense	
Personnel	8,496.74
Operating & Property Management	(127.00)
Acquisition	109,500.00
Professional Services	9,000.00
Site Development	3,750.00
Adjustments	(127,240.05)
Total Expense	3,379.69
Net Income	87,687.31

Third, release from restriction net assets whose restriction has been met (expired):

1. From the **Company** menu, select **Make General Journal Entries**
2. In the **Date** field enter the date of the release
3. In the **Account** column on the first line select the income account **Released from Restrictions**
4. **Tab** to the **Debit** column and enter the amount released from the restricted Class
    Note that a debit decreases restricted net assets.
5. **Tab** to the **Class** column and select the **Restricted** Class
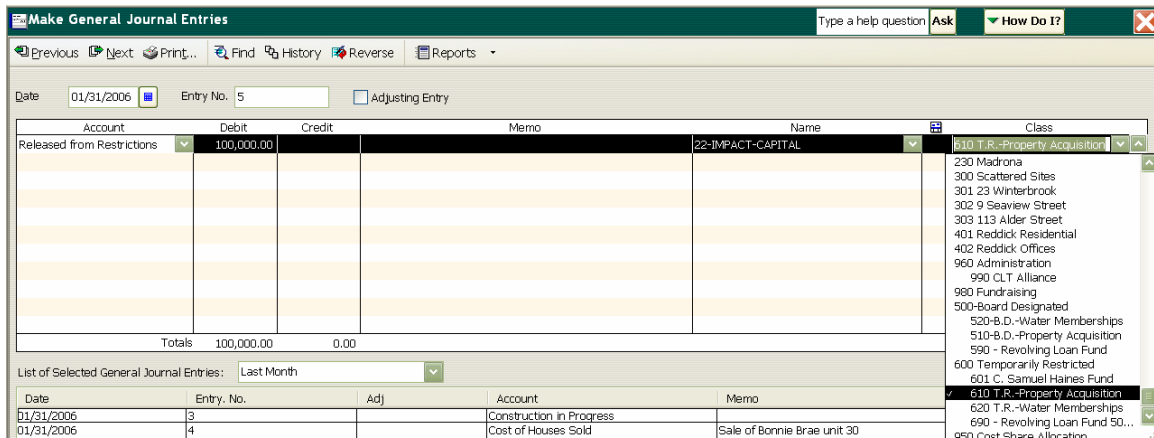
6. **Tab** to the next line and again select the account **Released from Restriction**
7. **Tab** to the **Credit** column and enter the amount released from the restricted Class
    Note that a credit increases net assets that are unrestricted.

8. **Tab** to the **Class** column and select the appropriate **Unrestricted** Class
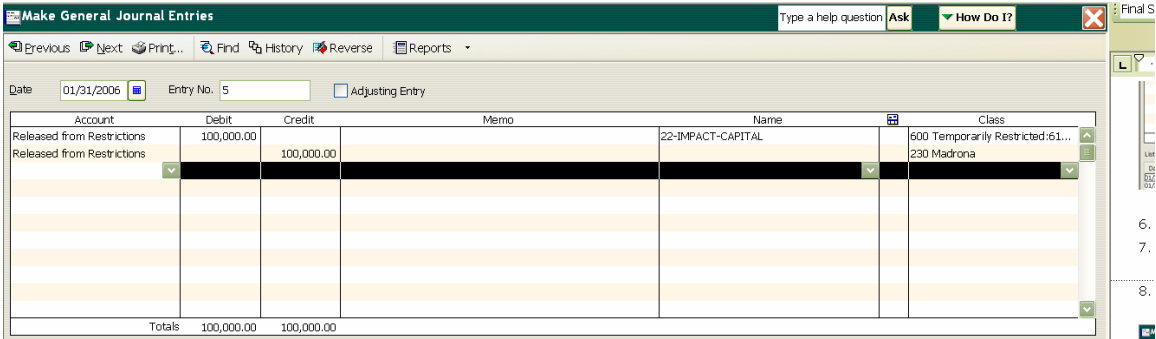
9. Click **Save & Close**

Note that the General Journal entry has no effect on the bottom line because there are an equal amount of debits and credits for the account Released from Restriction.

You can see this if you look at a Profit & Loss by Class report, filtered for the affected Classes only.

	230 Madrona	610 T.R.-Property Acq... (600 Temporarily Restr...	TOTAL
Income			
Grants	0.00	100,000.00	100,000.00
Released from Restrictions	100,000.00	(100,000.00)	0.00
Total Income	100,000.00	0.00	100,000.00
Gross Profit	100,000.00	0.00	100,000.00
Expense			
Personnel	4,990.05	0.00	4,990.05
Operating & Property Management	56.97	0.00	56.97
Acquisition	109,500.00	0.00	109,500.00
Professional Services	9,000.00	0.00	9,000.00
Adjustments	(123,490.05)	0.00	(123,490.05)
Total Expense	56.97	0.00	56.97
Net Income	99,943.03	0.00	99,943.03

Profit & Loss by Class
January 2006

If we now display the custom net assets report we looked at earlier, there are no more net assets restricted for Property Acquisition. They have all been released.

Restricted Net Assets
As of January 31, 2006

	Jan 31, 06
600 Temporarily Restricted	
601 C. Samuel Haines Fund	329.36
610 T.R.-Property Acquisition	0.00
620 T.R.-Water Memberships	53,513.79
600 Temporarily Restricted - Other	40,482.00
Total 600 Temporarily Restricted	94,325.15
TOTAL	94,325.15

This report is very useful for identifying restricted net assets at any point in time. It is worthwhile to memorize this report. Before memorizing the report, click the **Modify Report** button and then on the **Header/Footer** tab and in the **Report Title** field enter **Restricted Net Assets**.

APPENDIX

DEBITS & CREDITS

QuickBooks allows the user to process nearly all routine transactions without knowing whether an account should be debited or credited. To correctly record a General Journal entry, however, you must know the normal balance of the accounts used in the entry: whether they are debit accounts or credit accounts; you must know what accounts to use, whether each account balance should be increased or decreased, and whether to use a debit or a credit to accomplish that. Use the following chart as a guide:

	Increase (this is the account's normal balance)	Decrease
Asset Accounts, e.g., cash, A/R, fixed assets	**DEBIT**	**CREDIT**
Liability Accounts, e.g., accounts payable	**CREDIT**	**DEBIT**
Equity Accounts, e.g., net assets	**CREDIT**	**DEBIT**
Income Accounts	**CREDIT**	**DEBIT**
Expense Accounts	**DEBIT**	**CREDIT**

ALTERNATE METHOD FOR CAPITALIZING COSTS

The method described in **CHAPTER TWO - PROJECT DEVELOPMENT AND CAPITALIZATION** works well for capital costs recorded on vendor bills, checks, credit card charges, and paychecks. Not all capital costs are recorded on those forms. In many cases, a CLT receives in-kind contributions that increase the value of capital projects and, therefore, should be capitalized. In-kind contributions cannot be recorded in a manner that can be incorporated into this method and, thus, must be addressed separately. A CLT can treat costs associated with in-kind contributions separately.

If a CLT determines, for any reason, that the method described above is not the most efficient, use the alternative method described here.

Project development costs will be charged to expense accounts and then zeroed out using "adjustment" expense accounts. When they are zeroed out those costs will be charged to a fixed asset account named Construction in Progress, which is a holding account until the costs are finally distributed to the appropriate fixed asset accounts. See **DISTRIBUTE CONSTRUCTION IN PROGRESS TO ASSETS** section of **CHAPTER TWO - PROJECT DEVELOPMENT AND CAPITALIZATION**.

RECORD PROJECT DEVELOPMENT COSTS

Record all costs that will be capitalized to the appropriate expense account in the project development section of the Chart of Accounts. These accounts should be used only for capital costs. In addition, for each cost that will be capitalized, use the appropriate Class for the specific project. Lastly, if the cost should be charged to a particular funding source, select that funding source from the customer:job list.

Apply the same coding scheme when recording capital costs on a Write Checks form, a Credit Card Charge form, or a General Journal.

Because there are no payroll expense accounts in the project development section of the Chart of Accounts, you need to identify payroll costs for capitalization. It may be that all payroll costs coded to a project Class during its development phase should all be capitalized. Also, you can create different Earnings Items to segregate gross payroll that will be capitalized from other payroll. Finally, you may simply estimate payroll costs to capitalize from a payroll summary by employee.

REVIEW PROJECT DEVELOPMENT COSTS

To review costs before capitalizing them, use a Profit & Loss report filtered for the specific project Class and for personnel expense accounts and project development expense accounts. Modify the title in the header to identify the content of the report.

Project Development Costs - Madrona
April 2006

	Apr 06
Expense	
Personnel	
Salaries & Wages	▶ 3,162.50 ◀
Payroll Taxes	35.98
Total Personnel	3,198.48
Professional Services	
Design, Architecture	7,500.00
Design, Civil Engineering	5,300.00
Design, Surveying	3,400.00
Total Professional Services	16,200.00
Site Development	
Site Clearing	2,750.00
Total Site Development	2,750.00
Total Expense	22,148.48
Net Income	**(22,148.48)**

CAPITALIZE PROJECT DEVELOPMENT COSTS

To capitalize project development costs each month, create a General Journal moving the costs on the report to the Fixed Asset account Construction in Progress (debit) and zeroing them out against the appropriate "adjustment" expense accounts (credit) in the project development section of the Chart of Accounts. Use the appropriate project Class on each line of the entry.
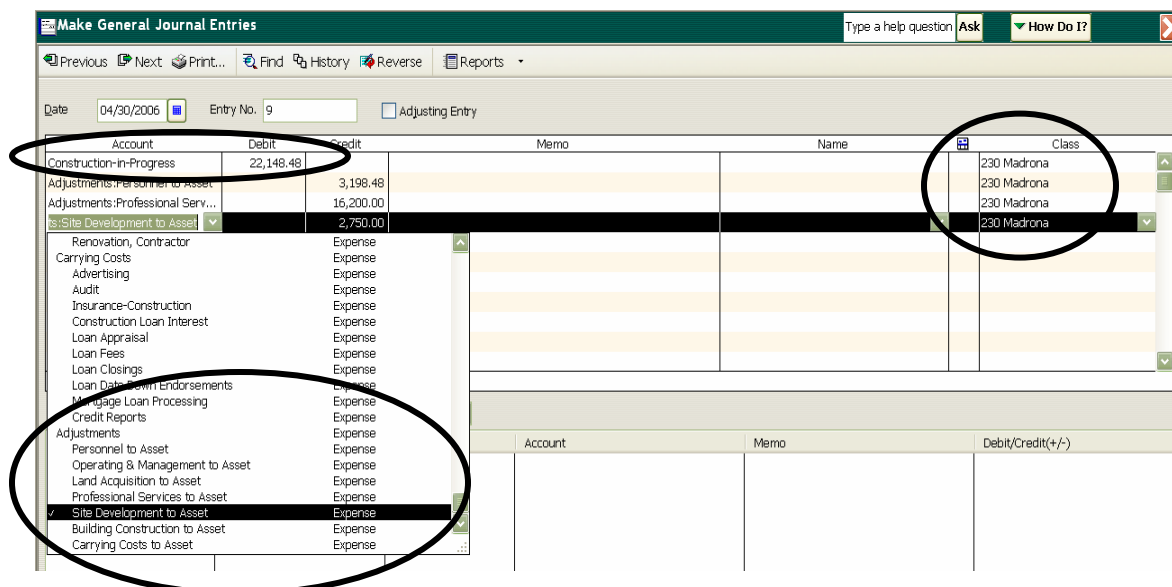
After recording the General Journal, the same Profit & Loss report shows the effect of capitalizing the project development costs, bringing the expense accounts for project development to a net of zero:

Project Development Costs - Madrona
April 2006

		Apr 06
Expense		
Personnel		
Salaries & Wages	▶ 3,162.50 ◀	
Payroll Taxes	35.98	
Total Personnel		3,198.48
Professional Services		
Design, Architecture	7,500.00	
Design, Civil Engineering	5,300.00	
Design, Surveying	3,400.00	
Total Professional Services		16,200.00
Site Development		
Site Clearing	2,750.00	
Total Site Development		2,750.00
Adjustments		
Personnel to Asset	(3,198.48)	
Professional Services to Asset	(16,200.00)	
Site Development to Asset	(2,750.00)	
Total Adjustments		(22,148.48)
Total Expense		0.00
Net Income		**0.00**

At the completion of the project, distribute costs from the Construction in Progress account into the appropriate asset accounts: Land, Houses Held for Resale, and Improvements Held by CLT. This process is similar to that described above in the **DISTRIBUTE CONSTRUCTION IN PROGRESS TO ASSETS** section of **CHAPTER TWO - PROJECT DEVELOPMENT AND CAPITALIZATION**.

IN-KIND CONTRIBUTIONS

In-kind contributions are contributions of anything other than money or securities and typically are categorized as goods, services, and facilities. Another category that may be useful for a CLT is capital improvements, also known as "sweat equity."

If recording in-kind goods and services that would be project development costs if paid for, use the appropriate expense account and project Class so the costs can be identified and capitalized.

To record an in-kind contribution:

1. From the **Company** menu, select **Make General Journal Entries**
2. Enter the **Date** of the entry
3. **Tab** to the **Entry No.** field and accept the default or replace it
4. **Tab** to the first line of coding
5. Enter the appropriate **in-kind income account**
6. **Tab** to the **Credit** column and enter the **value** of the in-kind contribution

7. **Tab** to the **Name** column and enter the name of the **donor** (if you record that detail in QuickBooks)

8. **Tab** to the **Class** column and enter the appropriate Class for the income

9. **Tab** to the next line

10. Enter the **expense account** or **fixed asset** account that you would have used if the organization had paid for the goods, services, or facilities

11. **Tab** to the **Debit** column and enter the **value** of the in-kind contribution

12. **Tab** to the **Class** column and enter the appropriate Class that will use or benefit from the contribution

13. Click **Save & Close**

Vendor Bills with Retainage

Record the total bill as a vendor bill but pay only the portion net of retainage until the retainage is due. At that time, pay all the remaining (retainage) portions of the bills. It will be helpful to note the amount of retainage in a memo field on the vendor bill.

To pay the portion due net of retainage, in the **Pay Bills** window, select the bills to pay and double click to the right of the number in the **Amt. To Pay** column for a bill with retainage (be sure the number is not <u>highlighted</u>). Press the "minus" key (-). A calculator appears. Enter the amount of retainage to subtract that amount from the amount of the bill. Press **Enter**.

Note the **Amt. To Pay** for the Builders Alliance LLC bills below are less than the **Amt. Due**:

Vendor	Ref. No.	Disc. Date	Amt. Due	Disc. Used	Credits Used	Amt. To Pay
Azous Environmental Sciences			1,500.00	0.00	0.00	1,500.00
Builders Alliance L.L.C.			12,640.00	0.00	0.00	11,376.00
Builders Alliance L.L.C.			18,500.00	0.00	0.00	16,650.00
Builders Alliance L.L.C.			24,930.00	0.00	0.00	22,437.00
Coldsprings Pumps, Inc.			3,825.00	0.00	0.00	3,825.00
Terra Firma NW LLC			7,500.00	0.00	0.00	7,500.00

After paying the bills net of retainage, the **Pay Bills** window shows only the retainage amounts due:

Pay Bills

Select Bills to be Paid

Show bills ● Due on or before 03/25/2006 A/P Account Accounts Payable
○ Show all bills Sort Bills By Vendor

✓	Date Due	Vendor	Ref. No.	Disc. Date	Amt. Due
	02/17/2006	Builders Alliance L.L.C.			1,264.00
	03/03/2006	Builders Alliance L.L.C.			1,850.00
	03/17/2006	Builders Alliance L.L.C.			2,493.00

Those amounts can be selected and paid when due after project completion.

CUSTOMIZED TEMPLATES FOR INVOICES

While not essential, it can be helpful to customize invoice templates for different uses.

CONSTRUCTION IN PROGRESS

To create a custom **Invoice** template for transferring project development costs to Construction in Progress (see Capitalize Development Costs above):

1. From the **Lists** menu, select **Templates**
2. Click the **Templates** button at the lower left corner of the window and select **New**

Select Template Type

Please select the type of template you are creating:

● Invoice
○ Credit Memo
○ Sales Receipt
○ Purchase Order
○ Statement
○ Estimate
○ Sales Order

OK Cancel

3. Select **Invoice**

4. Click **OK**

The following window appears:

5. In the **Template Name** field enter the name **Construction in Progress**
6. Click on the appropriate tabs and make them look exactly like the following screen prints:

FEES AND RENTS

To create a custom **Invoice** template for invoicing monthly fees and rents (see Record a Monthly Invoice for Fees above), follow the same steps for these screen prints:

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