

Best Practices for Recording Forgivable Loans

Many of our not-for-profit clients receive loans from local, state or federal government entities. Depending on the terms and language of the promissory note, repayment can be deferred for 15 or 30 years or essentially forever. In fact, many loans to not-for-profits are forgivable loans as long as the organization's mission aligns with the purpose and restrictions of the loan.

However, recording a loan on the books for years, even though it is deferred, may negatively impact the organization's financial statements. It may give the impression that an organization is highly leveraged and therefore not eligible for additional financing. It could also impact Board decisions if they perceive the loans as outstanding debt.

Here are some of the accounting best practices we can share to help improve your organization's financial position and ensure loan compliance:

- **Record forgivable loans as grants:** By recording the loan as a grant, it becomes a revenue to the organization rather than a debt, providing a more accurate picture of the organization's financial health.

- **Include footnotes in the commitment and contingencies section of the financial statements:** By adding well-explained footnote disclosures, current and future Board members and staff will continually be aware of the compliance requirements. By doing so, your organization will remain in compliance throughout the term of the agreement and minimize the risk of having to repay the loan.
- **Determine which loans qualify as forgivable loans and which of these could be recorded as grants and when:** Some loans must be recorded as loans indefinitely or for a certain period of time. It is important to review all loan agreements regardless of how long they have existed.



*Click here to learn more about LvHJ's services for **not-for-profit** organizations.*



If you have any questions regarding how your loans and grants are portrayed in financial statements, please contact: **Rita B. Dela Cruz**, Partner, at rdelacruz@lvhj.com or 415-905-5423.

[Click here to read more about Rita B. Dela Cruz.](#)

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