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STRENGTH MATTERS® Financial Statement Disclosures
Sample #8: Notes Receivable

The eighth paper generated from the **STRENGTH MATTERS® Sample Disclosure Project** Lindquist, von Husen & Joyce LLP (LvHJ) led in 2015 (Read previous issues on *Restricted & Designated Net Assets*, *List of Affiliates*, *Notes Payable*, *Commitments and Contingencies*, *Investments*, *Property and Equipment*, and *Related Party Transactions* papers here), provides a suggested format for the disclosure of an organization's **notes receivable**.

A real estate developer's consolidated financial statement may not include notes receivable held by the parent company when consolidated subsidiary companies are responsible to pay the notes. This is because all inter-company transactions have been eliminated through the consolidation process.

In many such cases, supplemental consolidating schedules may provide enough information about the eliminated notes receivable that are displayed on each consolidated entity's column. However, **lenders and other stakeholders find it useful to see disclosures about the parent-only notes receivable prior to eliminating entries.** Notes receivable may be a significant part of the parent company's financial statement and lenders are interested in identifying cash flow streams available to the parent company for debt service.

The disclosure format created with the help of lenders and Chief Financial Officers identifies notes receivable held by the parent organization, prior to eliminating entries, as well as other notes receivable included in the consolidated financial statements.

Here are some of the additional insights and suggestions included in the paper:

- **Notes receivable can be aggregated based on the similarity of terms**, such as mortgages receivable requiring monthly debt service or notes receivable with payments due based on net cash flow of the secured property. The range of interest rates and maturity dates for all of the notes in an aggregated group should be disclosed.
- It is helpful to **identify the number of notes receivable within each aggregated category**, so that the reader can have a better sense of the level of concentration of these assets within a group of creditors.
- **A five-year table of maturities**, similar to the one required in a notes payable disclosure, is helpful although it is not a required disclosure for notes receivable. Similar to the sample notes payable maturities disclosure recommended, this table is **more informative when maturities are displayed using the same aggregated category groupings contained elsewhere in the disclosure**.
- The sample disclosure also includes a suggested format when a smaller quantity of loans allow for identification of each note receivable in greater detail.

Click here to download a copy of Notes Payable best practice paper on the Strength Matters website. Subscription is required.


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If you have any questions regarding the Financial Statement Disclosures Project or Strength Matters, please contact: **Scott Seamands**, Partner, at sseamands@lvhj.com or 415-905-5408 or **Mary White Vasys** for Strength Matters at mwvasys@vasysconsulting.com or 312-641-5109.

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