



**Tennessee  
Board for Licensing Contractors**

<http://tn.gov/commerce/boards/contractors/index.shtml>

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**RENEWAL  
SUPPLEMENTAL INFORMATION**

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**\*\*Renewal Instructions\*\***

**\*\*Financial Statement Instructions for Renewals\*\***

**\*\*General Information\*\***

Retirement Instructions  
License Revision Instructions

**\*\*Important Law Changes\*\***

# Renewal – Supplemental Information

## Renewal Issuance

Allow 30 days for the Board to process your license renewal. If you do not receive a renewal form in the mail (mailed out 90 days prior to expiration), may download from the Board's website. State mail is not forwarded. Therefore, always contact the Board to notify of address changes. Contractors may check the Board's website "License Search" to review for updated expiration dates at: <http://verify.tn.gov>

### **The following are the most common problems which will prevent a license from being renewed:**

- **Financial Statement Problems**
  - Not in the exact name as licensed
  - Not current (more than 14 months) and need an updated statement
  - Working Capital and/or Net Worth does not support monetary limit (formula is 10%)
    - Options to supplement Working Capital and/or Net Worth include:
      - ▶ May submit in writing to lower the limit to the lesser amount
      - ▶ Supply personal financial statement(s) with Guaranty Agreement
      - ▶ Supply Line of Credit to supplement working capital
- **Insurance (Workers Compensation and General Liability)**
  - Expired coverage
  - Failed to submit proof (shows a qualifying agent as an employee)
  - Failed to submit the minimum amount of coverage of general liability
  - Corporation exemptions require approval from the Department of Labor's Work Force Development Division
- **Failed to complete Contactors Affidavit**
  - Did not sign or was not notarized
  - Did not answer all questions or provide attachments (felony, etc.)
  - Qualifying Agent is someone other than on file and no exam scores in file
  - Corporation or LLC is inactive with the Secretary of State's office
  - Licensed as a Sole Proprietor and renewing as a Corporation or LLC (must change mode of operation with Board)
- **Did not include late fees; or must reinstate**
  - Late fees assessed at \$20.00 each month
  - Renewal received after the expiration date (must allow 5 to 7 business days) and considered "Delinquent"
  - Renewal received more than 12 months after the expiration date (must complete new application process to reinstate)
- **Not active with Tennessee Secretary of State**
  - All Corporations, LLCs, and Limited Partnership licensees must be active
  - Secretary of State's Website: <http://www.tennesseeanytime.org/soscorp/>

Please be sure to check your renewal carefully when submitting in order to prevent contracting in violation of the law, and **mail 30 days prior to expiration date.**

## Financial Statement Instructions for Renewals

All contractor license renewals require a financial statement in the exact name as licensed (does not include “Spec Builder” licensees who cannot contract). The financial statement must support your current monetary limit on the license, which is determined by 10 times the lesser of both working capital and net worth. Example: Monetary limit is \$500,000; may renew if working capital and net worth are both at least \$50,000. In addition, the law will also allow renewing at 50% of the “total” net worth. Example: Monetary limit is \$500,000; may renew at 50% of net worth if \$1,000,000.) The following is supplemental information:

- I. **Financial statement** - A balance sheet listing all of the assets and liabilities of the company holding the license;
- ▶ The balance sheet should not contain personal assets or liabilities unless licensed as a sole proprietor
  - ▶ A classified balance sheet is preferred over an unclassified balance sheet.
    - Classified- separates assets and liabilities into current and non-current (long-term)
  - ▶ The financial statement must be in **exactly the same name as licensed**.
  - ▶ The balance sheet should contain a full date, including the month, day, and year.

II. **Reviewed Financial Statement** – Must be prepared by an actively licensed CPA/PA and is required if your monetary limit is **over \$1,500,000**. Must be on GAAP basis; OCBOA financials are not accepted. The reviewed financial statement must contain a signed report page, balance sheet and full disclosure notes. Audited financials are also acceptable.

- If your company is a **subsidiary of another company**, the parent company must submit a Guaranty Agreement with their entity’s financial statement.

III. **Self Prepared (See page 5 of the renewal) or Compiled Financial Statement** - Acceptable if your monetary limit is **\$1,500,000 or less**.

### IV. Guide to Classifying Assets and Liabilities:

**CURRENT ASSETS** are cash and those assets that are reasonably expected to be realized in cash or sold or consumed **within one year** or within a business’s normal operating cycle if it is longer. Generally, current assets include the following:

- Cash and cash equivalents available for current operations
- Marketable securities representing the investment of cash available for current operations, including investments in debt and equity securities classified as trading securities.
- Costs in excess of billings
- Inventories (to include materials and/or houses built for sale). Also, developed lots for sale. Raw, undeveloped land is not a current asset.
- Retirement Plans, specifically an IRA, 401K and Profit Sharing, will be allowed at 50% (**Personal IRA’s not allowed on Company Financial Statement**)
- Cash surrender value of **Life Insurance** policies (Not face value of life insurance)
  - **Must attach proof of Life Insurance value** with personal statements, if not prepared by a CPA, if this amount impacts the working capital more than 50%
- Trade accounts receivable, notes and other receivables that are expected to be collected within one year
- Prepaid expenses such as insurance, interest, rents, taxes, etc.

The following are **not “Current Assets”** since they generally are not expected to be converted into cash within one (1) year:

- Related party or owners receivables (not allowed as a current asset)
- Cash restricted for special purposes (Restricted cash may be classified as a current asset if it is considered to offset maturing debt that has been properly classified as a current liability, however.)
- Long term investments
- Receivables not expected to be collected within one year
- Land and other natural resources
- Depreciable assets (buildings, equipment, tools, etc.)
- Prepayments or deferred charges that will not be charged to operations within one year
- Notes receivables from stockholders (*option would allow if stockholder would provide their personal financial statement with Guaranty Agreement*)

**CURRENT LIABILITIES** are obligations whose liquidation is reasonably expected to require the use of current assets, or the creation of the other current liabilities. Generally, current liabilities include the following:

- Line of Credit balances and credit card balances
- Payables for materials and supplies
- Amounts collected before goods or services are delivered (billings in excess of costs)
- Accruals for wages, salaries, commissions, rents, royalties, and taxes
- Other obligations, **including portions of long-term obligations**, expected to be liquidated within one year\*

Current liabilities do not include long term notes, bonds and obligations that will not be paid out of current assets. If listing a long term liability you should classify the portion of the liability that is due within one year as a current liability. If no current portion of the liability is listed then a percentage of the liability will be classified as current for the purpose of determining the working capital.

#### **V. Supplemental Financial Statements:**

You may submit a supplemental personal financial statement or parent company's financial statement, in addition to the required contractor's financial statement, to help support monetary limit. However, these supplements are utilized at 50%.

- A "Guaranty Agreement" must be signed by the person(s) listed on the financial statement (including spouse); and/or company officer submitting the supplemental financial statement for corporate entity.
- These supplemental financial statements may be self-prepared; or compiled by a CPA/PA
  - Working capital and net worth are calculated for supplemental financial statements;
  - Working Capital is calculated for personal financial statements; these values are then decreased
    - by 50% and added to overall working capital and net worth;
    - A "negative" working capital and/or net worth is not reduced by 50% (must cover at full amount)
    - Supplemental financial statements may include an investment in the contractors company; however, the board will not allow the value of the investment in the contractors company in calculating overall working capital and net worth;
    - Receivables from related parties will not be counted as a current asset (this also applies to the contractor's financial statement);
    - Retirement plans will be accepted on a personal financial statement as a current asset; however, the value of the retirement plans will be reduced by 50% to account for tax liabilities.

#### **VI. Line of Credit**

You must submit the original Line of Credit letter in Board's exact format in order to use to supplement working capital. Any changes/omissions will render the Line of Credit unacceptable/obsolete in calculating working capital.

- Line of Credit will be added to overall working capital (does not affect net worth)
- If contractor's financial statement shows a "negative" working capital, the Line of Credit amount added to working capital is reduced by 50%; therefore, an additional or increased Line of Credit would be needed.

#### **VII. Related Party Receivables (related party/owner/stockholder)-**

Related Party Receivables are only accepted as a current asset if the related party submits a guaranty agreement and a financial statement which shows they have the ability to pay the receivable within a year.

#### **VII. Monetary Limit Calculation**

Ten times the lesser of total Working Capital and total Net Worth; or 50% of the "total" net worth. For example, a monetary limit of \$500,000; may renew if working capital and net worth are both at least \$50,000. Or, if they lack the required working capital but have net worth to cover at 50%, may renew if net worth is \$1,000,000.

Working Capital = Total Current Assets minus Total Current Liabilities

Net Worth = Total Assets minus Total Liabilities

**Example:** Monetary limit of \$1,000,000 must show Working Capital and Net Worth of at least \$100,000

**IX. Example Monetary Limit Calculation**

This example contains only a summary balance sheet for illustrative purposes (a summary balance sheet is not acceptable for complying with the board’s requirements). See the following illustration for how the auditor determines working capital and net worth:

**Sample of Contractor’s Financial Statement Calculations:**

XYZ Contractor Company (name must be exactly as licensed)		
Balance Sheet		
MM/DD/YYYY		
<b>Assets</b>		
Current Assets		\$14,000
Non-Current Assets		<u>20,000</u>
Total Assets		34,000
<b>Liabilities</b>		
Current Liabilities		16,000
Long-Term Liabilities		<u>10,000</u>
Total Liabilities		26,000
Equity (Net Worth)		<u>8,000</u>
Total Liabilities and Equity		34,000

Working Capital = \$14,000 – 16,000 = **(2,000)** (Parenthesis around number denotes a negative value)  
 Net Worth = \$34,000 – 26,000 = **8,000**

**Sample of Supplemental Financial Statement:**

To support monetary limit, the Guaranty Agreement would also be required.

John and Jane Doe (must complete Guaranty Agreement)		
Balance Sheet		
MM/DD/YYYY		
<b>Assets</b>		
Current Assets		\$ 4,000
Non-Current Assets		<u>220,000</u>
Total Assets		224,000
<b>Liabilities</b>		
Current Liabilities		13,000
Long-Term Liabilities		<u>140,000</u>
Total Liabilities		153,000
Equity (Net Worth)		<u>79,000</u>
Total Liabilities and Equity		224,000

Working Capital = \$4,000 – 13,000 = **(9,000)** (Parenthesis around number denotes a negative value)  
 Net Worth = \$224,000 – 153,000 = **79,000**

The working capital is taken at full value and the net worth is accepted at 50%, both are added to overall values.

The Contractor also submitted a properly completed Letter of Credit from a Bank for **\$100,000**. This letter of credit is reduced by 50% due to a negative contractor’s working capital.

- Total Working Capital = **(2,000) + (9,000) + 50,000** (50% of Line of Credit) = **\$39,000**
- Total Net Worth = **\$8,000 + 39,500** (50% of Personal Financial statement) = **\$47,500**

These values support a maximum Monetary Limit of **\$390,000** (10 times lesser of W/C and N/W)

## SUPPLEMENTAL FINANCIAL INFORMATION

Contractors with limits of **\$1,500,000 OR LESS** may prepare their own financial statement. If your monetary limit is **GREATER THAN \$1,500,000**, you **MUST** attach your CPA's or Licensed PA's **REVIEWED OR AUDITED** financial statement.

**FINANCIAL STATEMENT's** must be submitted in the **EXACT** name as licensed. If you are licensed as John Doe Construction Company LLC, your financial statement must be in the name of John Doe Construction Company LLC.

**MONETARY LIMIT;** Your financial statement must show 10% of your monetary limit in working capital and 10% of your monetary limit in net worth. For example, a \$1,000,000 license requires a working capital of at least \$100,000 and a net worth of at least \$100,000. **WORKING CAPITAL** is current assets minus current liabilities; **NET WORTH** is total assets minus total liabilities. An unlimited license requires a working capital of at least \$300,000 and a net worth of at least \$300,000. The monetary limit cannot automatically be increased; must submit revision request. (TCA 62-6-116; Rule 0680-1-.15)

**LINE OF CREDIT (LOC)** may be used to supplement working capital, only. Must be in our format, on Bank's letterhead, exact name as licensed, and the original. If your financial statement shows a negative working capital, only 50% of the LOC (*do not add to financial statement*) amount will be used. (TCA § 62-6-116/ Rule 0680-1-.13)

**GUARANTY AGREEMENT** with a personal financial statement may be used to supplement financial statement. However, only 50% may be used. NOTE: The Guaranty must be signed by both husband and wife, and notarized. If your financial statement does not support your limit, you will be notified by mail to submit additional information or accept a lower license limit. Companies owned by another entity, the **Parent** company must supply financial statement with Guaranty. (TCA § 62-6-116; Rule 0680-1-.13)

**LIFE INSURANCE CASH VALUE** proof is needed if this amount is needed to support working capital and impacts 50% or more of the total, unless the statement is prepared by a CPA.

# GENERAL INFORMATION

## ----- RETIREMENT -----

To retire a license, download the retirement form from our website or you may contact the Board office for the application. Retirement fee is \$25 for each year; additional fees may apply if license has recently expired. A license expired more for more than 12 months cannot be retired. To bring out of retirement, complete the "Renewal" application and pay renewal fee of \$200.00. Retired licensee must pay retirement renewal fee of \$25.00 for each year to retire the status. (If submitted for one year, must resubmit annually prior to expiration date). License cannot be retired more than 7 years. (TCA § 62-6-126)

## ----- REINSTATEMENT -----

A license expired in excess of 12 months, contractor must complete the new license application; expired for more than two years, must request waiver of exams. (TCA 62-6-116(g))

## ----- NAME CHANGE/MODE OF OPERATION CHANGE /TRANSFER -----

Contact the Board office for the appropriate forms to change mode of operation. For example, change to corporation, partnership, Limited Liability Company or sole proprietor. You cannot operate in new mode until license has been approved by the Board. (TCA §§ 62-6-111, 116) **Do not send requests to change or revise license with renewal; send separately to ensure forwarded to revision section's office.**

## ----- CHANGE IN OWNERSHIP OR MERGER -----

License is considered *INVALID and you must apply for a new license*. Contact the Board or review the website for the new license application. If the qualifying agent remains, the exams do not have to be retaken. (TCA § 62-6-111)

## ----- QUALIFYING AGENT -----

The qualifying agent is the Individual who tested or was designated (prior to exams in 1987) on behalf of the company. Should this person leave, must notify Board within 10 days; the company has 90 days to designate another and supply the "Add or Change Qualifying Agent" form with exam scores. After 90 days, the license is considered *invalid* until QA is replaced. If the classification does not require a trade exam, must still supply the "Add or Change Qualifying Agent" form with a list of their experience and any required certifications. It is the Board's policy that the "Business and Law" does not have to be retaken, unless there are complaints, citations, or judgments against the company. (TCA § 62-6-115/Rule 0680-1-.23)

## ----- GENERAL LIABILITY INSURANCE -----

Effective July 1, 2007, **all** contractors must provide a **certificate of general liability insurance**

## ----- INCREASING MONETARY LIMIT -----

You must complete the increase request forms (*available on our website*) and provide the appropriate CPA prepared financial statement in order to increase your monetary limit. An audited financial statement is required to increase your monetary limit above \$1,500,000. Any increase request of \$1,500,000 or less requires a reviewed financial statement. **Do not send increase request with renewal application.**

## ----- REVISIONS -----

Do not send revision requests with your renewal! For forms to apply for changes, contact our office or review our website for forms, such as: **"INCREASE REQUEST"** or **"ADD CLASSIFICATION"** or **"CHANGE IN MODE"**, etc.

## ----- ADDRESS CHANGE -----

Written notification of address change must be submitted within 30 days of the change (Rule 0680-1-.08).

## ----- FEES -----

The Board's physical office cannot accept fees. Renewals with fees must be sent to the mailing address. Hand delivered renewals and fees must be turned in to the "Cashier's Office" (*separate from board office*).

## ----- CONFIDENTIAL INFORMATION -----

Financial statements are considered confidential and may not be released to the public. Guaranty Agreements are not confidential. In addition, for public information request for review or copies of files, social security numbers are redacted on all forms.

## ----- NO GRACE PERIOD FOR RENEWALS -----

There is not a grace period to renew; cannot contract or permit until the renewal license has been issued. The law states renewals are **due** in the Board office **30 days prior to expiration**, to prevent contracting unlicensed. Please allow 5 to 7 business days for mail delivery.

----- **NO EXTENSION LETTERS FOR RENEWAL** -----

The Board for Licensing Contractor's office cannot grant extension letters prior to license renewal. The law states renewals are due in the Board office **30 days prior to expiration**, to prevent contracting unlicensed. In addition, renewal notices are mailed to contractors 90 days prior to the expiration date. In the event you do not receive the renewal notice in the future, or need an additional copy, all renewal forms are available on the website at: <http://tn.gov/commerce/boards/contractors/index.shtml>

Until the license is renewed, you are not considered legal or a properly licensed contractor. Please refrain from bidding or attempting to pull any permits until renewed. You may check the status on the departmental website at: <http://verify.tn.gov>

----- **RENEWAL LICENSE ISSUED** -----

A renewal is considered complete upon receipt of the fee, correct financial statement supporting monetary limit, required proof of workers' compensation insurance and general liability insurance and active with the Secretary of State's office (corporations/LLC's). Upon receipt of your complete renewal, a license will be issued. The audit process typically takes 30 days (*renewals are processed in the order as received*). If additional information is needed, you will be notified to respond. However, renewal rights expire after the license has been expired 12 months. Therefore, please ensure you provide the additional information or you may request to place the license in "retirement" by completing this form and submitting the \$25.00 annual retirement fee.

**Please mail your renewal 30 days prior to the expiration date to avoid unlicensed contracting!**

----- **CONTRACTING IN NAME AS LICENSED** -----

You must contract, permit and conduct business in the exact name appearing on your license. Licenses are not transferrable to another entity. Contracting in a name other than as licensed is illegal and is considered unlicensed activity. Should you receive a pre-printed bid submittal form, please make sure the name listed is as licensed. Always provide the prime contractor a copy of your license for them to list correctly on public bids. (TCA § 62-6-114, 119/ Rule 0680-1-.25)

----- **BIDDING** -----

Must list license information (**Name** as appears on license, **License I.D. Number**, **Classification**, and **Expiration Date**) on the outside of the bid envelope to avoid bid rejection. Also list the same information Pertaining to **electrical, mechanical, plumbing, HVAC subcontractors**; and **\*masonry** (\$100,000); as well as the **geothermal TDEC well driller** license number and classification (G or L). (T.C.A. § 62-6-119)

\*Effective July 1, 2010, Masonry contractors must be listed on the outside of the bid envelope.

----- **FAMILY OWNED BUSINESSES** -----

Please note, should a relative hold the license, family members may not use license to perform contracting.

----- **WORKERS COMPENSATION INSURANCE** -----

Contractors with one (1) or more employees, such as a qualifying agent without majority ownership, must provide proof of workers compensation insurance. The Board for Licensing Contractor's requires the proof of workers compensation insurance to be in the following format:

"Producer" section must include the name of the insurance agency, and telephone number; "Insured" section should list the name of the contractor and license ID number; "Certificate of Insurance" should list the name of the insurance company; To Be Determined" or "TBD" is not acceptable; Policy effective and expiration date must fall within the period of license; "Description of Operations" portion must list: "State of Tennessee Contractors License"; "Certificate Holder" section should list the "Board for Licensing Contractors" and address; Cancellation Notice" section must be completed with at least 10 days notice to be given.

Please include the license ID# on all certificates to ensure they are assigned to the correct contractor. Effective **March 28, 2011**, the new law requires all contractors to submit proof of insurance unless a they are considered exempt as a sole proprietor, partnership or LLC without employees. (Public Chapter 1 - Labor and Workforce /Title 50, Chapter 6 - passed 1/27/2010)

----- **WEB SITE ADDRESSES** -----

Contractors (Home): <http://tn.gov/commerce/boards/contractors/>  
Secretary of State: [http://state.tn.us/sos/bus\\_svc/index.htm](http://state.tn.us/sos/bus_svc/index.htm) - Use this site to check corporate status of Corporation/LLC  
License Law: [www.michie.com](http://www.michie.com) Click onto "Tennessee" jurisdiction and Title 62, Chapter 6.

# **SUMMARY OF NEW LAWS, RULES & REGULATIONS**

Be sure to check the Board's website for new legislation, laws and rules. The following is a summary of changes from the past legislative session <http://tn.gov/commerce/boards/contractors/law.shtml>

## **2010 Legislation**

### **PUBLIC CHAPTER NO. 1 – Workers' Compensation Amendment**

Amended prior law with new exemption requirements.

### **PUBLIC CHAPTER NO. 768 – Masonry Bid Envelope Requirements**

Requires masonry contractors to be listed on the outside of the bid envelope, for masonry portions (including materials and labor) over \$100,000.

### **PUBLIC CHAPTER NO. 801 – Electronic Bidding**

Prohibits from requiring subcontractors license information to be provided prior to bid deadline.

### **PUBLIC CHAPTER NO. 950 – Masonry Subcontractors and Exam**

Requires masonry subcontractors to be licensed by taking a "LMC" (Licensed Masonry Contractor) trade exam by January 1, 2011 in order to bid or perform work in excess of \$100,000 (including materials and labor). Trade exam to be available after 9/1/2010.

### **PUBLIC CHAPTER NO. 749 – Prohibited Liens from Unlicensed Home Improvement Contractors**

Clarifies that unlicensed home improvement contractors, just as other contractors, are also prohibited from filing liens.

### **PUBLIC CHAPTER NO. 1055 – Criminal Violation/Punishment as Theft**

A contractor who takes money without performing work is considered a felony.

## **2009 Legislation**

### **PUBLIC CHAPTER NO. 482 (Unlicensed Contractor- Recovery)**

Contractor required to be licensed under this chapter, limited to recovery of expenses.

### **PUBLIC CHAPTER NO. 483 (Contracts - Lien Waiver Rights Prohibited)**

Contractor solicits any person to sign a contract requiring the person to waive a right of lien is in violation.

### **PUBLIC CHAPTER NO. 529 (TN Clean Energy Future Act of 2009 / Statewide Code)**

State fire marshal shall enforce the statewide codes with regard to those buildings for which the local jurisdiction has not adopted...

### **PUBLIC CHAPTER NO. 792 (Geothermal HVAC Projects) July 1, 2008**

Section 62-6-119 - Requires Tennessee Department of Environment and Conservation (TDEC) license number, classification (G, L or G,L) and the expiration date to be listed on the outside of bid envelope.

### **PUBLIC CHAPTER NO. 804 (Retainage) July 1, 2008**

Section 66-11-144(g), Applicable to all prime contracts and all subcontracts for the improvement of real property when the contract amount of such prime contract is (\$500,000) or greater.

### **SENATE BILL 4039 (Energy Efficient Schools Initiative)**

Title 4 and Title 49, relative to creating the Energy Efficient Schools Initiative (EESI).

### **RULE 0680-1-.25**

Must contract in the name as licensed. (Clarification of T.C.A. 62-6-114 and 119)

Note: This is a summary from the Board for Licensing Contractors. You may review complete contents of the laws passed with the Tennessee General Assembly at: <http://www.legislature.state.tn.us/> or the Rules at: <http://www.state.tn.us/sos/rules/>

