

FINANCIAL STATEMENT - CONTRACTOR'S BALANCE SHEET

License #:000_____

1. License Name: _____
2. Mode of Operation: ☐ Sole Proprietor ☐ Corporation ☐ LLC ☐ Partnership
3. Date of Statement: _____ (month) _____ (day) 20 _____ (year)

| CURRENT ASSETS | | Dollars Only | |
|------------------------------|---|--------------|--|
| | Cash on hand and in the Bank | | |
| | Accounts Receivable (Within 1 year) | | |
| | Trade | | |
| | Employees | | |
| | Other: (Itemize) | | |
| | Costs in excess of billings on uncompleted contracts | | |
| | Marketable Securities, Stocks, and Bonds | | |
| | Inventories- Materials or Houses Built or Developed Lots for Sale | | |
| | Retirement Plans (IRA; 401K; Profit Sharing) [Generally Only for Personal Financials] | | |
| | Cash Surrender Value of Life Insurance (Not Face Value) [May be required to supply documentation] | | |
| | Prepaid Expenses (Insurance, Taxes, Interest, Rents, Other) | | |
| | Other: (Itemize) | | |
| A | Total Current Assets | | |
| NON-CURRENT ASSETS | | | |
| | Accounts Receivable (amounts not due within 1 year) | | |
| | Related Party Receivables | | |
| | Long Term Investments | | |
| | Land | | |
| | Depreciable Assets | | |
| | Buildings | | |
| | Equipment | | |
| | Tools | | |
| | Vehicles | | |
| | Other: (Itemize) | | |
| B | Total Assets | | |
| CURRENT LIABILITIES | | | |
| | Credit Cards (Balance) | | |
| | Accounts Payable (Amount Due Within 1 Year) | | |
| | Accrued Salaries and Wages | | |
| | Billings in excess of costs (uncompleted contracts) | | |
| | Equipment Encumbrances (Amount Due Within 1 year) | | |
| | Real Estate Encumbrances (Amount Due Within 1 year) | | |
| | Line of Credit (Balance) | | |
| | Other: (Itemize) | | |
| C | Total Current Liabilities | | |
| LONG TERM LIABILITIES | | | |
| | Accounts Payable (Amount Due After 1 Year) | | |
| | Equipment Encumbrances (Amount Due After 1 year) | | |
| | Real Estate Encumbrances (Amount Due After 1 year) | | |
| | Stockholder Payable | | |
| | Other: (Itemize) | | |
| D | Total Liabilities | | |
| E | NET WORTH (Total Assets minus Total Liabilities = Net Worth) | | |
| | Total Liabilities and Net Worth | | |

Formula: Working Capital: A - C = \$ _____; Net Worth: B - D = \$ _____; Same as "E"

Both must be 10% of monetary limit; or 50% of net worth

Financial Statement Resource

Contractors with a monetary limit assigned to their license that is less than \$1,500,000 may provide a self-prepared financial statement. This may be from your own computer software; a balance sheet from your bank; or the attached balance sheet form provided by the Board as a renewal resource may also be used. Assets and liabilities must be clearly broken out in order for the auditors to determine the working capital and net worth calculated from the financial information.

Upon renewing, the contractor is not required to supply a reviewed or audited financial statement if their monetary limit is less than \$1,500,000. For contractors with a limit in excess of \$1,500,000, an "Audit" or "Reviewed" statement prepared by the CPA is required. Each license is issued to either a sole proprietor; partnership; corporation; or LLC. In addition, each license is assigned a monetary limit which is based upon 10 times the working capital and net worth (10%); the lesser of the two. However, if there is limited working capital, the Board may assess the limit at 50% of the total net worth (based upon Rule 0680-01-.13). This amount is based upon the financial statements assets and liabilities; current assets minus current liabilities equals working capital; and total assets and total liabilities equals the net worth. See the rule below:

Rule 0680-01-.13 MONETARY LIMITATIONS.

(1) Generally, the monetary limitation placed on a classification of a license will be determined as follows:

(a) for applicants having no apparent deficiency with respect to plant or equipment, the lesser of:

1. ten (10) times the applicants net worth; or
2. ten (10) times the applicant's working capital.

(b) at the Board's discretion, renewal applicants having no apparent deficiency with respect to plant or equipment, but with limited working capital, the greater of:

1. ten (10) times the applicant's working capital; or
2. fifty percent (50%) of the applicant's net worth.

(c) for other applicants, a lesser amount reflecting the degree of lack of plant or equipment.

(2) Lines of credit and indemnities (on forms furnished by the Board) may be considered to raise a monetary limitation. Lines of credit may be added up to its full value to the working capital. Credit for indemnities will be limited to fifty percent (50%). However, if the applicant has a negative working capital, lines of credit will be recognized at 50% of value

Based upon the above rule, many options are available for a contractor to supplement their working capital and net worth. If the contractor is lacking working capital, a "Line of Credit" (LOC) may be used at 100% value to supplement working capital, unless, there is a negative working capital or net worth; then only 50% is applied. The LOC does not

supplement net worth; only an indemnity may be used to support the net worth, as well as acceptable for the working capital.

Indemnities such as a "Guaranty Agreement (GA)" with a supplemental personal financial statement may be used at 50% value and these supplemental statements are not required to be prepared by a CPA. Also, a "Contractor's License Bond" may be obtained in the amount of \$500,000 (for limits less than \$1,500,000); or \$1,000,000 (for limits exceeding \$1,500,000).

The following are the typical conditions allowing a contractor to utilize an indemnity:

- **Supplement Working Capital and Net Worth** - Contractors showing a deficiency on their financial statement may provide a supplemental statement to support their CPA prepared statement in lieu of putting more capital into the business.

Example: A contractor requesting a monetary limit of \$500,000 is required to show at least \$50,000 in both working capital and net worth (*10 times the lesser of working capital and net worth - 10%*).

If a contractor has \$40,000 working capital and \$100,000 net worth, the working capital does not qualify, but may be supplemented. The contractor has the options to either supply a "Line of Credit" in the amount of \$10,000 (*LOC is considered at full value since they are not negative*); or they may supply an indemnity, such as a personal financial statement with a "Guaranty Agreement" showing at least \$20,000 in working capital (*supplemental statements considered at 50% and these are not required to be a review or audit*); then the contractor would qualify for the \$500,000 limit; or if they cannot obtain a LOC or GA, they have the option to obtain a "Contractor's License Bond", but the lowest amount established by the Board is \$500,000.

- **Subsidiaries Obtaining a License** – For those contractors owned by another business entity and the parent company will not be the holder of the license, the business entity obtaining the license would then need to be indemnified by the controlling owner/parent company of the business entity.

Example: An in-house financial statement is acceptable for those subsidiaries without a separate review or audit, as long as a Review or Audit by an independent CPA is provided by the owner/parent company.

- **Cash Statements** - Contractors submitting primarily a "cash" only financial statement with no fixed assets would be required to supply an indemnity.

Example: Cash only statements are those considered in Rule 0680-01-.13(1)(a) as having a deficiency in respect to plant or equipment. In lieu of supplying a business operating statement, an indemnity would be needed to provide evidence of financial security and stability.

Line of Credit (*form may be downloaded from the website*)

A "Line of Credit" (LOC) in the Board's **exact format** may be used to supplement working capital, only. (Any changes/omissions to the form will render the Line of Credit unacceptable and would not be utilized.)

- LOC will be added to overall working capital (*does not affect net worth*)
- If contractor's financial statement shows a "negative" working capital, the LOC amount added to working capital is reduced by 50%; therefore, an additional or increased LOC would be needed.
- The LOC must be from a lending institution, such as a bank, savings and loan which is FDIC approved
- A financial statement must be supplied and a LOC cannot be accepted in its place

Personal Guaranty Agreement (*form may be downloaded from the website*)

The Guaranty Agreement is a tool that may be used to supplement the working capital and net worth, however, the Board **discourages** the use and advises only to consider as a **last resort**, as these may be considered to fulfill obligations personally not satisfied by the business.

Other options include placing more capital and fixed assets into the company; or utilizing a "Line of Credit" (*if only the working capital is lacking*); and whenever it is a substantial amount needed to supplement, you may check with an insurance company for the use of a Contractor's License Bond. In addition, you should consult with an attorney before utilizing a personal "*Guaranty Agreement*" indemnity. If one is used, you will need to provide with a supplemental personal financial statement which may be a self-prepared (you may use the Board's balance sheet form).

- Any guarantee on file will expire at the time of renewal.
 - If it is needed when renewing, a new "Guaranty Agreement" must be provided each renewal cycle.
- Signatures on the Guaranty Agreement
 - Person(s) listed on the personal financial statement would be required to sign as personal guarantor
- The Guaranty Agreement is considered part of the financial statement and confidential pursuant to T.C.A. § 62-6-124 and not as a matter of public record. A subpoena would be required to obtain these records.

Corporate Guaranty Agreement (*form may be downloaded from the website*)

The Board may require a contractor the option to utilize a "*Guaranty Agreement*" indemnity, with a supplemental parent company financial statement. If the supplemental statement is self-prepared or compiled, it will only be considered at 50% value. If the monetary limit is in excess of \$1,500,000, then a CPA prepared Reviewed or Audited financial statement would be required.

- Any guarantee on file will expire at the time of renewal.
 - If it is needed when renewing, a new "Guaranty Agreement" must be provided each renewal cycle.

- Signatures on the Guaranty Agreement
 - The authorized owner/officer of the corporate or parent company statement would be required to sign as a corporate guarantor.
- The Guaranty Agreement is considered part of the financial statement and confidential pursuant to T.C.A. § 62-6-124 and not as a matter of public record. A subpoena would be required to obtain these records.

Contractor's License Bond (*form may be downloaded from the website*)

If there are extenuating circumstances such as legal conflicts preventing the parent company from supplying a "Guaranty Agreement" as the indemnity agreement, the contractor may request to supply the Board with an original "*Contractor's License Bond*". It must have the original signatures and in the exact format as the Board's form; no deviation from the language is acceptable.

Depending on the financial statement and monetary limit requested, the Board will consider either a \$500,000 (for limits less than \$1,500,000) or \$1,000,000 (for a limit more than \$1,500,000) bond amount. Please note, the "*Contractor's License Bond*" may be used only in lieu of the "*Guaranty Agreement*" and does not waive any other license requirements.

- The bond must have a "Power of Attorney" attached from the bonding/insurance provider.
- The provider must have an approved rating from "*A.M Best Company, Inc.*"
- The bond cannot be released from liability for one (1) year after the license expiration or replacement of another indemnity (if required based on financial statement).

More information relative to financial statements is available in the Board's "Renewal Instruction Booklet" available from the website at: <http://www.tn.gov/commerce/boards/contractors/forms.shtml>