

## Apply Online for a Mode Change

Apply online at: <http://core.tn.gov/>

In accordance with Contractor's Rule 0680-01-.09, the following is required in order for a licensee's request for a Mode Change to be reviewed by the Board:

### The following is needed to apply online:

- Certificate of Insurance- In your new Mode of Operation name (General Liability with proper liability insurance coverage, see insurance information at: [https://www.tn.gov/content/dam/tn/commerce/documents/regboards/contractors/forms/ContInsuranceInfo\\_001.pdf](https://www.tn.gov/content/dam/tn/commerce/documents/regboards/contractors/forms/ContInsuranceInfo_001.pdf)

- Financial Statement (*obtain from CPA*, see information below)

- Complete Contractor's Affidavit Form

All Mode change requests require a current **REVIEWED (\$3,000,000 and below)** or **AUDITED (\$3,000,001 and over)** financial statement prepared by a properly licensed Certified Public Account (CPA) on **GAAP** basis. Financial statements defined as current are less than 12 months. Financial statements prepared on an Income tax basis, cash basis or compiled are considered unacceptable.

Hardship/Emergency Requests- In order to obtain an early review prior to the Board's regularly scheduled meeting, the "owner/customer" of the project must submit a hardship request in writing from the contractor. Mode change requests must be **complete**. Hardship request form with special instructions may be printed from the website:<https://www.tn.gov/content/dam/tn/commerce/documents/regboards/contractors/forms/HardshipRequestForm.pdf>. Please contact Rhonda Emanuelson at [rhonda.m.emmanuelson@tn.gov](mailto:rhonda.m.emmanuelson@tn.gov) if you are submitting a hardship request.

All licensees must be current and valid in order to be reviewed by the board.

If you encounter problems with attaching documents, we would appreciate notifying our office at [Contractor.App@tn.gov](mailto:Contractor.App@tn.gov) and include the error message received from the system, as well as attaching the documents to the email in order to match up with your application. Requests for Mode Change must be received by the following deadline dates in order to be reviewed at one of the six regularly scheduled Board meetings.

Month of Meeting	Application Deadline Date
January	December 31st
March	February 28th
May	April 30th
July	June 30th
September	August 31st
November	October 31st

Note: If the end of the month is on a weekend or holiday, the deadline date will be the next business day.

\*Please see documents below for detailed information.

STATE OF TENNESSEE  
**BOARD FOR LICENSING CONTRACTORS**  
500 JAMES ROBERTSON PKWY., NASHVILLE, TN 37243-1150  
(615) 532-3994 or (800) 544-7693 - Fax (615) 532-2868  
Website: <https://www.tn.gov/commerce/regboards/contractor>  
Email: [contractors.home-improvement@tn.gov](mailto:contractors.home-improvement@tn.gov)

**INSTRUCTIONS/CHECKLIST**  
**TRANSFER-CHANGE MODE OF BUSINESS OPERATION (Revision Request)**

The attached “Transfer – Change Mode of Operation” application may be used to *change the mode of operation, only*. This form **cannot** be utilized to **add new owners changing the majority ownership**, or to transfer the license to **another business entity**. For example, if you are licensed as a corporation, you cannot transfer to another corporation (new or existing). If only the name is changing and not the mode, you may apply for a [“Name Change”](#) (see website).

1. \_\_\_\_\_ **Mode of Operation Request and Contractor’s Affidavit** - Complete pages 2 – 3; and supply attachments relative to pages 5, 6 and 10. The “Contractor’s Affidavit” must be signed and notarized stating the liabilities of prior entity have been satisfied. (TCA § 62-6-111(e) & Rule 0680-1.09; Rules and Law may be reviewed from our website. Provide a letter of explanation when applicable.
2. \_\_\_\_\_ **Reviewed or Audited Financial Statement Prepared by CPA** - Must attach a current financial statement prepared by a CPA, with a “Reviewed” or “Audited” opinion, in the new name and mode to be licensed (see pages 6 - 9 for financial guidelines.)
  - If supplying a financial statement that is “cash” only, without fixed assets; Rule 0680-1-.13 requires an indemnity, such as a Guaranty Agreement with a personal or corporate financial statement. Please see more information at: <https://www.tn.gov/commerce/regboards/contractor/supplemental-resources.html>
3. \_\_\_\_\_ **Proof of Insurance** - Attach proof of insurance for General Liability and Workers’ Compensation insurance in name to be licensed (see page 5).
4. \_\_\_\_\_ **Corporate Amended Certificates** – Unless a sole proprietor, attach applicable certificates, such as an “amended” Charter, Articles of Organization, Certificate of Authority, which are obtained from the Tennessee Secretary of State’s office at (615) 741-2286 or from their website at: <https://sos.tn.gov/> (You may be required to obtain a new business license with each county/city and may do so with the Department of Revenue at: <https://www.tn.gov/revenue.html> or apply for a new federal EIN # with the IRS) – See page 10 for “Resources”
5. \_\_\_\_\_ **Letter of Relinquishment** – Optional- *Only for owners leaving licensed entity* (page 4 )

- Do not operate in the new mode of operation before license is approved. Always contract in the exact name as licensed. If it’s time to renew, option would be to renew as licensed and apply for a mode change.
- Revisions must be approved by the Board at their regularly scheduled meetings which are held during the months of January, March, May, July, September and November. Do NOT send or attach with renewal; mail separately. To obtain an early review by the Board for emergencies, please see the [“Hardship”](#) criteria and process on the website. When submitting this form at renewal time, you may receive a renewed license in the former mode or name before the revised license. Do NOT contract in the new name/mode of operation until approved! (See Rule 0680-1-.25)
- If there has been a change in ownership, merger, reorganization or purchases by nonstockholders; or if a “Partnership” has dissolved, please notify our office for the [new license application](#) instead of completing this form, or you may download from our website. (See T.C.A. 62-6-111 – law does not allow a partnership to transfer.) If your QA (Qualifying Agent) has changed, please submit their exam scores with [“QA – Change/Add”](#) form.
- Revisions require Board approval at their regular scheduled meetings, unless approved for a “Hardship” (see criteria on website). If your application was submitted incomplete, you will be notified in by email or mail to supply additional information. The revised license will be mailed within two weeks after the Board meeting, or you may view on the website at: <http://verify.tn.gov/> More resources on pages 12.

**CONTRACTOR'S AFFIDAVIT – MODE CHANGE**

1. **■ New License Name:** \_\_\_\_\_  
**■ New Mode of Operation:**  Sole Proprietor  Corporation  Partnership  Limited Liability Company

2. To the best of my knowledge, information, and belief, a petition in bankruptcy { } **\*HAS { } HAS NOT** been filed within seven (7) years preceding the filing of this transfer application, from any person who is an officer, owner, partner on this license.  
▪ *\*If you checked "HAS", please attach information; explanation of the proceedings; discharge, etc. (TCA § 62-6-111)*

3. All liabilities from former license mode of operation { } **HAVE { } \*HAVE NOT** been satisfied.  
▪ *\*If you checked "HAVE NOT", please attach explanation. (TCA 62 §-6-111(g)(1)(E))*

4. As "Contractor" (owner, officer, qualifying agent or major stockholder) with this entity, I/we do hereby affirm, I/we: **{ } \*HAVE { } HAVE NOT** - **1)** Been convicted of a **Felony**; or **2)** Participated in **Improper Conduct**, such as: fraud; gross negligence; incompetence; misconduct; dishonest dealings; or **3)** Received **Complaints** filed arising from contracting involving judgments, liens, incomplete work, or in violation of the license law, § T.C.A. 62-6-101, et seq.  
▪ *\*If you checked "HAVE", please attach an explanation; any applicable copies of court documents or probation status from felony with copy of background check showing criminal history.*

5. As "Contractor", I/we { } **\*HAVE { } HAVE NOT** bid, offered to engage or performed any construction, in the State of Tennessee, where the amount of the contract would require a license to engage in contracting, in the **new name or mode of operation** to be licensed.  
▪ *\*If you checked "HAVE", please attach an explanation.*

*This change is allowed in accordance of § T.C.A. 62-6-111; Rule 0680-1.-09. I/we hereby affirm that in applying to the Tennessee Board for Licensing Contractors for a license revision to change the mode of operation of this licensed entity to engage in contracting with the State of Tennessee, hereby depose and say as follows:*

Information provided in this request is true and correct; submitted to the Board for Licensing Contractors for the express purpose to change the mode of operation on the contractor's license in the State of Tennessee. Further, there has been no majority **change in ownership**, merger, or reorganization due to bankruptcy, which requires a new license application.

**\*Please attach an explanation for those questions requiring additional information.**

***The individual owners, officers, controlling stockholders, qualifying agent(s), or Chief Executive Officer duly authorized for the officers and stockholders, have executed this affidavit. Further, if any liabilities and/or complaints from former operation have not been satisfied, please attach an explanation.***

_____ (Print Name)	_____ (Title)	_____ (Signature)
_____ (Print Name)	_____ (Title)	_____ (Signature)
_____ (Print Name)	_____ (Title)	_____ (Signature)
_____ (Print Name)	_____ (Title)	_____ (Signature)

**Subscribed before me this \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_\_.**

**My Commission Expires:** \_\_\_\_\_

**(NOTARY PUBLIC)**

(NOTARY SEAL)

Note: Failure to disclose may result in license being denied (TCA 62-6-118).

Rev. 7/2014

\*Optional – Required only if an **owner is leaving** licensed business entity!

Tennessee Board for Licensing Contractors  
500 James Robertson Pkwy.,  
Nashville, TN 37243-1150

Telephone: (615) 532-3994 or 800-544-7693 or Fax: (615) 532-2868

Website: <https://www.tn.gov/commerce/regboards/contractors/licenses.html>

Email: [contractors.home-improvement@tn.gov](mailto:contractors.home-improvement@tn.gov)



**\*LETTER OF RELINQUISHMENT**

*(Required only by one leaving the licensed entity; do not complete if no change in ownership. Majority changes require new license application)*

Date: \_\_\_\_\_

LICENSE ID # \_\_\_\_\_

I, \_\_\_\_\_, formerly of \_\_\_\_\_,  
*(Print Name of Person Leaving)* *(Name on License)*

do hereby relinquish all rights of contractor’s license effective this date to the remaining owner(s) of the licensed entity. No ownership has been sold to **non-stockholders**, which would constitute in **new ownership**, making the license invalid and would require the new owner(s) to file a new license application. While a “business” may be sold, the “license” issued by the Board for Licensing Contractors cannot be sold or transferred to any person, firm or entity. Further, I understand by relinquishing these rights, I would need to reapply for a contractor’s license before conducting business as a licensed contractor.

\_\_\_\_\_  
*(Signature)*

Affirmed/sworn and subscribed before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

\_\_\_\_\_  
*(Notary Public)*

My Commission Expires:

- *(Notary Seal)*-

**\*A “Letter of Relinquishment” is not required unless an existing owner approved on the license is leaving the licensed entity in order for the remaining owner(s) to continue to operate their business as a licensed contractor. A change in ownership whenever the majority is new owners, and who were not approved on the license by the Board, requires a new license application in accordance of T.C.A.§ 62-6-111.**

**Note: For any reason, if the remaining owner is unable to obtain a relinquishment from prior owners(s), they should supply a notarized statement to this effect.**

If the person leaving is the Qualifying Agent (QA), a new QA must be designated and this would require the **“QA Change/Add”** request forms, with a copy of passing trade exam scores.

Must attach proof of insurance in the revised name!



STATE OF TENNESSEE  
DEPARTMENT OF COMMERCE AND INSURANCE  
**BOARD FOR LICENSING CONTRACTORS**

Mailing Address: 500 JAMES ROBERTSON PARKWAY; NASHVILLE, TENNESSEE 37243-1150  
TELEPHONE: 800-544-7693 OR (615) 741-8307 OR FAX (615) 532-2868  
Website: <http://tn.gov/commerce/boards/contractors/> Email: [Contractors.Home-Improvement@tn.gov](mailto:Contractors.Home-Improvement@tn.gov)

**INSURANCE INFORMATION**  
**(Attach Certificate of Insurance)**

The Board for Licensing Contractors regulates licensing for five (5) professions. Their insurance and bonding requirements are listed in each of their applications; however, the following is a summary:

<u>LICENSE TYPE</u>	<u>INSURANCE</u>
Contractors <i>(Building, Electrical, Mechanical, Specialty, etc)</i>	General Liability and Workers' Comp
Home Improvement	General Liability/Workers' Comp/Bond
Limited Licensed Electricians (LLE)	None
Limited Licensed Plumbers (LLP)	None
Pre-License Course Providers	\$50,000 Bond

*(Note: Local municipalities permit issuing agencies and bid awarding authorities may also require insurance and bonding)*

**General Liability**

Effective July 1, 2007, the state law requires all contractors to obtain General Liability insurance in order to renew or apply for a contractor or home improvement license. (In addition, Workers' Compensation insurance is also required.)

The Board has established the following as a "minimum" amount of coverage and it's based on the monetary limit designated on the license. Please check with your insurance provider, as they may advise to apply for more or additional coverage based upon your individual needs and the amount of projects you perform.

<u>Contractor's License Monetary Limit</u>	<u>Minimum General Liability Insurance</u>
Less than \$25,000 (Home Improvement)	\$ 100,000
Up to \$500,000	\$ 100,000
\$500,001 to \$1,500,000	\$ 500,000
\$1,500,001 to Unlimited	\$1,000,000

**Workers Compensation**

**Law Requiring Proof of Insurance for Contractors Licensing**

T.C.A. § 62-6-111(a)(1) requires providing proof of workers' compensation insurance for employees, and the owners/officers, unless they are exempt. See the <https://www.tn.gov/workforce.html> website for more information, or [Our Website](#).

(B) The current financial statement of such individual meets the requirements promulgated by the board. If such financial statement fails to meet such requirements, the board may in its sole discretion modify the monetary limitation prior to transfer; and

(C) All liabilities of the partnership were satisfied prior to dissolution or will be satisfied by the individual.

(2) The board for transferring such license shall collect a fee as set by the board.

(g) (1) The board shall transfer, upon application and payment of a fee as set by the board, by any proprietorship or partnership which subsequently incorporates as a Tennessee corporation, the license formerly held by such proprietorship or partnership to such corporation upon a showing that:

(A) The officers or directors or management of the corporation were the owners or managers of the proprietorship or partnership;

(B) A copy of the corporation's charter has been filed with the board;

(C) The partnership or proprietorship is currently in good standing with the board;

(D) The current financial statement of such corporation meets the requirements promulgated by the board. If such financial statement fails to meet such requirements, the board may in its sole discretion modify the monetary limitation prior to transfer; and

(E) All liabilities of the proprietorship or partnership were satisfied prior to incorporation or will be satisfied by the corporation.

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## **EXCERPT FROM RULES AND REGULATIONS**

### **0680-01-.09 CHANGE IN MODE OF OPERATION.**

(1) Whenever a partnership licensed as a contractor dissolves, no former member of the partnership shall further undertake contracting before filing a new application with the board and receiving a license.

(2) In the case of a merger, purchase by non-stockholders of the majority interest, reorganization pursuant to a bankruptcy proceeding, or any other type of change in mode of operation of an entity engaged in contracting, the entity shall make written application to the Board and obtain a new license before further undertaking contracting.

(3) Individuals or entities seeking a new license pursuant to T.C.A. § 62-6-111(f) or (g) shall submit a letter which addresses the requirements of that section. In addition, the applicant shall submit an affidavit that all liabilities of the entity were satisfied or will be satisfied by the individual or entity.

(4) In the event of a change in mode of operation as outlined in T.C.A. § 62-6-111(e), the qualified agent or majority stockholder must appear before the Board unless specifically waived by the Board.

(5) In the event of any change in mode of operation, the licensed entity in question shall have ninety (90) days from the date of the change in mode of operation to submit either an application for a mode change, if there are no changes in ownership or officers, or a new application if there are such changes. The entity may not bid on or enter into new contracts until a new or revised license has been issued; however, the entity may continue to work on already existing contracts that were entered into prior to the change in mode of operation, provided the application is made within the ninety (90) day period.

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### **0680-01-.25 CONTRACTING IN CORRECT NAME; CHANGE OF NAME.**

(1) Upon receiving a certificate of licensure from this Board, the licensee has an affirmative responsibility to enter into contracts and operate its related contracting business under the name in which it is licensed in order to notify and prevent confusion on the part of the public at large of an entity's licensure status. Contracting in a name different than that in which an individual or entity is licensed by this Board is considered a violation of this chapter, and will be cause for appropriate disciplinary action.

(2) In the event of a name change of a licensee, the licensee must complete an application request for a name change and be approved prior to contracting in the new name. The licensee shall have ninety (90) days from the date that the new entity is formed to apply for a license in the new entity name. The licensee cannot bid on or enter into contracts in the new name until it has been issued a revised license; however, the entity may continue to work on already existing contracts that were entered into prior to the name change, provided the application is made within the ninety (90) day period.

## LAW, RULES AND REGULATIONS

The law, rules and regulations may be reviewed in its entirety from the links on our website at: <https://publications.tnsosfiles.com/rules/0680/0680.htm>

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## 2014 Legislation and Rules Updates

HB1464 - Name on License Cannot be Similar to an Existing Licensee

- [Eff. 2/24/2014 - Public Chapter 528](#)

HB1671 - Bid Document Procedures

- [Eff. 7/1/2014 - Public Chapter 644](#)

## 2013 Legislation and Rules Updates

HB0328 - Unlawful to Exceed Monetary Limit and Revised Lien Law to include Commercial

- [Public Chapter 469](#) (Eff. July 1, 2013)

HB0480 - Roofing Subcontractors must be Licensed as Contractors

- [Public Chapter 355](#) (Eff. January 1, 2014)

HB0142 - Six Month Hold of License for License Violations

- [Public Chapter 180](#) (Eff. April 10, 2013)

HB0551 - Employee Misclassification Penalties

- [Public Chapter 424](#) (Eff. July 1, 2013)

## Notifications

Register online to receive notifications by email for law changes, newsletters, etc. at: [Get Notified!](#)

## Expiration Date

When obtaining a revision for a mode change to a license, the expiration date does **NOT** change. Only after renewing, the expiration date will be updated.

## Other License Revisions

See the "Forms and Downloads" to increase monetary limit, add a classification, etc., at: <https://www.tn.gov/content/tn/commerce/regboards/contractors/licensee-applicant-resources/forms-and-downloads.html>

## FAQ's

See "Frequently Asked Questions" and answers at: <http://tdcihelp.zendesk.com>

Must attach financial statement prepared by CPA!

# WORKSHEET FOR DETERMINING MONETARY LIMIT (Attach to CPA's Reviewed or Audited Financial Statement)

**FINANCIAL STATEMENT OF:** \_\_\_\_\_ **DATE** \_\_\_\_\_  
(Must be in the exact name as to be licensed) (Less than 12 months)

- \_\_\_ AUDITED                      \_\_\_ REVIEWED                      \_\_\_ LICENSED CPA                      \_\_\_ LICENSED PA
- \_\_\_ SOLE PROP                      \_\_\_ PARTNERSHIP                      \_\_\_ LLC                      \_\_\_ CORPORATION
- \_\_\_ \*CASH STATEMENT WITHOUT FIXED ASSETS (Requires Indemnity and/or Supplemental Financial Statement)

CURRENT ASSETS \_\_\_\_\_ TOTAL ASSETS \_\_\_\_\_

CURRENT LIABILITIES \_\_\_\_\_ TOTAL LIABILITIES \_\_\_\_\_

WORKING CAPITAL \_\_\_\_\_ NET WORTH \_\_\_\_\_

**\*SUPPLEMENTAL FINANCIAL STATEMENT(S)**  Not Applicable  Yes - Guaranty Agreement /Bond Must be attached

1. Company/Personal Financial Statement of \_\_\_\_\_ Date \_\_\_\_\_

Current Assets \_\_\_\_\_ Total Assets \_\_\_\_\_

Current Liabilities \_\_\_\_\_ Total Liabilities \_\_\_\_\_

Working Capital \_\_\_\_\_ Net Worth \_\_\_\_\_

**50% of W/C** \_\_\_\_\_ **50% of N/W** \_\_\_\_\_

2. Company/Personal Financial Statement of \_\_\_\_\_ Date \_\_\_\_\_

Current Assets \_\_\_\_\_ Total Assets \_\_\_\_\_

Current Liabilities \_\_\_\_\_ Total Liabilities \_\_\_\_\_

Working Capital \_\_\_\_\_ Net Worth \_\_\_\_\_

50% of W/C \_\_\_\_\_ 50% of N/W \_\_\_\_\_

3. Line of Credit in the amount of \$ \_\_\_\_\_ Bank: \_\_\_\_\_

**TOTALS:**  
**COMBINED WORKING CAPITAL \$** \_\_\_\_\_ **COMBINED NET WORTH \$** \_\_\_\_\_

**CURRENT MONETARY LIMIT: \$** \_\_\_\_\_ (General Liability Insurance must be sufficient)

\*Should the contractor's financial statement and experience fail to qualify for the current licensed monetary limit , the contractor may agree to lower limit (must respond in writing).

**MONETARY LIMITS ARE BASED ON TEN (10) TIMES THE LESSER OF YOUR COMBINED WORKING CAPITAL and NET WORTH:**

- SUPPLEMENTAL FINANCIAL STATEMENTS MAY BE USED TO INCREASE NET WORTH AND WORKING CAPITAL AT 50%
- LINE OF CREDIT MAY BE CONSIDERED TO SUPPLEMENT WORKING CAPITAL (50% if negative working capital)
- GUARANTY AGREEMENT MUST BE SIGNED AND NOTARIZED, BY ALL PARTIES LISTED ON THE SUPPLEMENTAL PERSONAL FINANCIAL STATEMENT (such as Spouse); PARENT COMPANY MUST BE SIGNED BY AUTHORIZED OFFICER
- **CASH ONLY** STATEMENTS, WITHOUT FIXED ASSETS, REQUIRE AN INDEMNITY (See Rule 0680-01-.13)

Note: If needed, "Line of Credit"; "Guaranty Agreement"; and "Contractor's License Bond" formats may be downloaded from the Board's website at: <https://www.tn.gov/content/dam/tn/commerce/documents/regboards/contractors/forms/ContBLC-GuarantyAgreementPolicy.pdf>



# Financial Statement Requirements

## (Change in Mode of Operation)

**Financial statement** requirements are the same as when first applying for a license. A financial statement with a balance sheet prepared by an actively license **CPA** is required and you should provide them a listing of all the assets and liabilities of the entity owning the license.

- A company's financial statement should not include any personal assets or liabilities
- 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 the **exact name as to be licensed**
- The balance sheet should contain a full date, including the month, day, and year
  - *Those dated in excess of 12 months is not considered current*

### **REQUIRED**

- **Reviewed Financial Statement** – For monetary limits **\$1,500,000 or less**; or
- **Audited Financial Statement** - For monetary limits **exceeding \$1,500,000**;

Note: Compiled and self-prepared statements are only acceptable as “supplemental” in addition to the review or audit. **Cash** only statements, without fixed assets would require a supplemental statement with a guaranty agreement or contractor's license bond (*see the Board's resources from their websites “Forms and Downloads” for more information at: <https://www.tn.gov/content/dam/tn/commerce/documents/regboards/contractors/forms/ContBLC-GuarantyAgreementPolicy.pdf>*)

### **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.
- Underbillings on work in progress
- 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 are not allowed on Company Financial Statement*)
- Cash surrender value of life insurance policies (Not face value of life insurance) – for it to be considered, may supply proof
- Trade accounts receivable, notes and other receivables that are expected to be collected within one year
  - Note: If accounts receivable provide the majority of working capital, the Board may require an update of the collection of these accounts before allowing full value
- Prepaid expenses such as insurance, interest, rents, taxes, etc.

**NONCURRENT ASSETS** are not **current assets** since they generally are not expected to be converted into cash within one 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 (the Board does not consider these as current assets without an indemnity)

**CURRENT LIABILITIES** are obligations whose liquidation is reasonably expected to require (a) the use of current assets or (b) 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 (overbillings on jobs in progress)
- Accruals for wages, salaries, commissions, rents, royalties, and taxes
- Other obligations, **including portions of long-term obligations**, expected to be liquidated within one year\*

**LONG TERM 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 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.

## Supplemental Financial Statements (Sample on Page 9)

A personal financial statement (or parent company) may be supplied to supplement financial statement with Guaranty Agreement, in addition to the contractor's financial statement, if needed support monetary limit. Supplemental's are utilized at 50% value. Guarantees must be signed by all persons listed on the personal; or authorized company officer submitting the parent supplemental financial statement. See more information from the web: <https://www.tn.gov/content/dam/tn/commerce/documents/regboards/contractors/forms/ContBLC-GuarantyAgreementPolicy.pdf>

- Personal "supplemental" financial statements may be self-prepared or compiled
  - CPA/PA *not needed*
- Working capital and net worth are calculated for supplemental financial statements
  - These values are then decreased by 50% and added to overall working capital and net worth
  - A negative working capital or net worth value is not reduced by 50%.

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). In instances where a parent indemnifies a subsidiary for an unlimited monetary limit, the Board may allow a bond, in the Board's format, to be supplied in lieu of a Guaranty Agreement.

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. Life insurance documentation is needed when listed on personal statements where their value supplies 50% of the working capital needed.

### Line of Credit *(From a FDIC Financial Institution)*

You must submit original letter of credit in board's format.

- Any changes/omissions will render the line of credit obsolete in calculating working capital.
- Line of credit will be added to overall working capital at 100% value *(Does not affect net worth)*, unless contractor's financial statement shows a negative working capital; the line of credit amount added to the working capital is reduced by 50%.

### 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.

### Guaranty Agreements and Indemnities

The Board allows supplemental statements with Guaranty Agreements to supplement working capital and net worth at 50%. A Guaranty is required by the Board should a contractor supply a "**cash**" only financial statement without fixed assets. If your company is a **subsidiary of another company**, the parent company must submit a Guaranty Agreement and a financial statement; or they may supply a "Contractor's License Bond" in the Board's format. See the website regarding the Board's policy regarding indemnities; both corporate and personal guaranties. See also <https://www.tn.gov/content/dam/tn/commerce/documents/regboards/contractors/forms/ContBLC-GuarantyAgreementPolicy.pdf>

**Monetary limit** ten (10) times the lessor of working capital and net worth

- Working Capital = Total Current Assets minus Total Current Liabilities
- Net Worth = Total Assets minus Total Liabilities

Monetary limit of \$1,000,000 must show Working Capital and Net Worth of at least \$100,000. A contractor may obtain an "Unlimited" monetary limit by showing \$300,000 and experience with an Audited statement.

### Example Monetary Limit Calculation:

This example contains a "summary" balance sheet for illustrative purposes; a summary balance sheet is not acceptable for complying with the boards requirements (see page 9):

**Sample of Contractor's Financial Statement**  
(Showing a negative working capital)

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 (W/C) = \$14,000 – 16,000 = **(2,000)** (Parenthesis around number denotes a negative value)
- Net Worth (N/W) = \$34,000 – 26,000 = **8,000**

A personal financial statement may be supplied to support monetary limit requested

**Sample of Supplemental Financial Statement**  
(Guaranty Agreement must be properly filled out)

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 listed above is taken at full value since it is negative. The net worth is accepted at 50%; both are added to the 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.

Formula

Total Working Capital (W/C) = **(2,000) + (9,000) + 50,000** (50% of Line of Credit) = **\$39,000**

Total Net Worth (N/W) = **\$8,000 + 39,500** (50% of Personal Financial statement) = **\$47,500**

**Example:** These values support a maximum monetary limit of \$390,000 (10 times the lesser of W/C and N/W).

**Supplements**

Supplements to the financial statement may be from a "Line of Credit"; or indemnities, such as a "Contractor's License Bond"; or "Guaranty Agreement" and these forms may be downloaded from the Board's website. You are encouraged to speak with your CPA or Attorney before submitting personal indemnities. **Cash** only financial statements, without fixed assets, require an indemnity. See <https://www.tn.gov/content/dam/tn/commerce/documents/regboards/contractors/forms/ContBLC-GuarantyAgreementPolicy.pdf>

Attach a copy of amended corporate registration, unless a sole proprietor, from the Tennessee Secretary of State!

## **Tennessee Secretary of State** (*Amended Corporate Registration*)

<https://sos.tn.gov/business-services>

### **Corporations**

This aspect of Business Services involves filing and maintaining corporation, limited liability company, limited partnership, limited liability partnership, and general partnership documents that are authorized by law to be filed with the Secretary of State; information about and certification of business documents on file; certificates of existence, authority and registration. Check business name search at:

<https://tnbear.tn.gov/Ecommerce/FilingSearch.aspx>

## **Tennessee Department of Revenue** (*Business Tax License*)

<http://tn.gov/revenue.html>

### **Business Tax Filing**

Effective **January 1, 2014**, all business tax returns must be filed and paid electronically at:

<http://tn.gov/revenue/onlinefiling/businesstax/bustaxefile.shtml>

## **Tennessee Department of Labor and Workforce Development**

<http://www.tn.gov/labor-wfd/wcomp.html>

### **Definition of Employee vs Independent Contractor**

See website at: <https://www.tn.gov/workforce/injuries-at-work/employers/employers/compliance/employee-misclassification.html>

## **Tennessee Economic and Community Development** <https://www.tn.gov/ecd.html>

### **Steps to Starting a Business**

<http://www.tnsmartstart.com/>

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## **Excerpt of Law Pertaining to Mode Changes**

62-6-111. License and examination — Transfer of license. —

(e) (1) Whenever a partnership licensed as a contractor dissolves, no former member of the partnership shall further undertake contracting before filing a new application with the board and receiving a license.

(2) In the case of a merger, purchase by nonstockholders of the majority interest, or reorganization pursuant to a bankruptcy proceeding, of any licensee engaged in contracting, the licensee shall make written application to the board and obtain a new license before undertaking contracting.

(f) (1) Upon application of any individual who was formerly a partner in a dissolved partnership, the board shall transfer to such individual the license formerly held by the partnership upon a showing that:

(A) The individual was a partner in a dissolved partnership;