

# Bulletin No. 2

Accounting Procedures in Determination of  
Contractor's Financial Resources

# Accounting Procedures

## DETERMINATION OF FINANCIAL RESOURCES OF COMMERCIAL ORGANIZATIONS ENGAGED IN HIGHWAY AND TRANSPORTATION CONTRACTING

### Financial Statements

The Texas Department of Transportation requires that a prospective bidder submit audited financial statements (Classified Balance Sheet, Income Statement, Statement of Cash Flows, Retained Earnings Statement, and Notes to the Financial Statements). These should be prepared according to generally accepted accounting principles and audited by an independent certified public accounting firm. Alternatively, financial statements prepared according to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) will be accepted.

In addition, a completed Confidential Questionnaire containing financial, equipment, and experience data must also be submitted. The questionnaire must correspond to the accompanying financial statements.

New statements are required each year. Once approved, the entity is qualified for a period of one year from the date of the financial statement balance sheet; however, they must be approved for at least one Letting prior to the anniversary date of the balance sheet. The Department reserves the right to require a new questionnaire and/or statement at any time. The statement must be prepared as of the last day of any month and must be on file in Austin 10 calendar days prior to the date bids are to be opened.

The Department interprets this requirement as 10 calendar days before the last day of the Letting. For example, assume that a contractor wishes to submit bids on projects to be opened on the 6th and/or 7th of April. The statement should be filed by the 28th day of March in order to bid on these projects.

If a contractor has a satisfactory statement on file, he/she will be eligible to bid for a period of 12 months from the balance sheet date. A contractor will also be granted a three-month grace period to prepare and submit a new statement.

The contractor should be aware that the grace period will allow him/her to bid for three consecutive months following the anniversary of the financial statement balance sheet date, inclusive of any canceled Letting date. The contractor may bid on locally let projects during this time as well. The 10-day requirement must still be met if the contractor desires to submit bids in the Letting following the grace period, or any other Letting.

To be satisfactory, the financial statements must be audited by an independent, certified public accounting firm registered and in good standing in any state.

In the event a group of firms or companies, which is owned by individuals or groups of individuals and their immediate families, desires to qualify with the Department, the group must prequalify based on

statements prepared as of the same date. Those firms defined as affiliated firms in the following paragraph must also prequalify as of the same date.

For the purposes of prequalification, affiliated firms may be defined as two or more bidders:

1. that share common officers, directors, or stockholders;
2. in which a family member of an officer, director, or stockholder of one bidder serves in a similar capacity in one of the other bidders;
3. in which an individual who has an interest in, or controls a part of, one bidder either directly or indirectly also has an interest in, or controls a part of, one of the other bidders;
4. that are so closely connected or associated that one of the bidders, either directly or indirectly, controls or has the power to control another bidder;
5. when one bidder controls or has the power to control one of the other bidders; or
6. that are closely allied through an established course of dealings, including but not limited to the lending of financial assistance.

A family member is considered to be individual's parent, parent's spouse, stepparent, stepparent's spouse, sibling, sibling's spouse, spouse, child, child's spouse, spouse's child, spouse's child's spouse, grandchild, grandparent, uncle, uncle's spouse, aunt, aunt's spouse, first cousin, or first cousin's spouse.

## **Independence of Accountant**

The Texas Department of Transportation will not recognize any certified public accountant as independent who is not, in fact, independent. For example, an accountant will not be considered independent with respect to any contractor, or any affiliate thereof, in whom he/she has any financial interest, direct or indirect, or with whom he/she is or was during the period of the report connected as a promoter, underwriter, voting trustee, director, officer, or employee. In determining whether an accountant is, in fact, independent with respect to a particular contractor, the Department will give appropriate consideration to all relevant circumstances, including evidence bearing on all relationships between the accountant and that contractor or any affiliate thereof, and will not confine itself to the relationship existing in connection with the filing of financial statements with the Department.

## **Basis of Auditing Procedure**

The examination by the independent certified public accounting firm should conform to auditing standards generally accepted in the United States of America, supplemented by additional auditing procedures as necessary in certain circumstances. For public companies, the examination should conform to standards of the Public Company Accounting Oversight Board (United States).

Examinations conforming to International Auditing Standards are acceptable for prequalification, all other requirements in this Bulletin being met.

## Position of the Department

The Texas Department of Transportation will determine a contractor's Bidding Capacity for the purpose of issuing bid documents and awarding contracts. Bidding Capacity is determined by multiplying the positive net working capital (working capital = current assets - current liabilities) by a factor determined by the Department. Only those statements reflecting a positive net working capital position will be considered satisfactory for prequalification purposes. The Department may make adjustments to a contractor's net working capital as deemed necessary as a result of the analysis of the prequalification submission. Impairments of net working capital occurring subsequent to the balance sheet date may be considered cause for adjustment. However, subsequent events will not be considered for the purpose of enhancing working capital for bidding purposes.

NOTE: If after multiplying the contractor's net working capital by the above factor, the result is less than a comparable value to the Bidder's Questionnaire with compiled financials and the below listed work experience, the contractor's Bidding Capacity will be set at the same level, provided that:

1. net working capital is positive and
2. the contractor furnishes documentation of at least two years' experience and four completed projects in the field in which he/she wishes to bid.

The accounting firm should state in the audit report whether the contractor is an individual, partnership, corporation, or limited liability company. The Department requires consolidated financial statements and Confidential Questionnaires in instances where Financial Accounting Standards Board Accounting Standards Codification (ASC) 810 requires consolidated financial statements. **However, a subsidiary (or variable interest entity) may not qualify under the financial statements of its parent (reporting enterprise).** If qualifying itself, the subsidiary (or VIE) must submit its own set of financial statements or be shown separately as a part of consolidating financial statements included in the audit of the parent (reporting enterprise). If the parent or reporting enterprise is also qualified, its Bidding Capacity will be reduced by an amount equal to its prequalified subsidiary's (or VIE's) Bidding Capacity. **Combined financial statements will not be accepted unless accompanied by combining financial statements which show the qualifying company separately.**

Financial statements should be presented in U.S. dollars at the current rate of exchange as of the Balance Sheet date.

The acceptance of consolidated financial statements from a parent company in no way creates an exception to any Texas Department of Transportation specification prohibiting the brokering of contracts. In other words, the Department will enter into contract only with the prequalified company that placed the bid on the project, and that company must complete at least the minimum amount of the contract itself as set forth in the applicable specifications.

## **Accountant's Opinion**

The accountant's opinion on the financial statements of the contracting company should state that the audit has been conducted in accordance with auditing standards generally accepted in the United States of America or as issued by the IASB. This must be stated in the accounting firm's opinion. It should:

1. express an unqualified opinion or
2. express a qualified opinion on the statements taken as a whole.

Financial statements on which an adverse opinion has been expressed or a disclaimer of opinion has been expressed will not be accepted

An accountant may express a qualified opinion as to the overall fairness of the presentation of the financial data in cases where he/she is not completely satisfied on some point, but under the circumstances, the matter in question is not of sufficient significance to prohibit an opinion on the statements taken as a whole. In the event the accountant is unable to express an opinion on the statements as a whole, then he/she should describe the exceptions noted.

When an accountant finds it necessary to issue a report in which he/she qualifies the opinion with respect to a current liability, the Texas Department of Transportation will not consider the accompanying financial statements to be acceptable for the purposes of prequalification.

In the instance a qualified opinion is issued with respect to a current asset item, that item will be excluded from current assets in the calculation of working capital.