

Chapter Trans 140

DEALER LICENSING FINANCIAL ELIGIBILITY
REQUIREMENTS

Trans 140.01	Purpose and scope	Trans 140.06	Net worth reporting
Trans 140.02	Definitions	Trans 140.07	Types of entities
Trans 140.03	Balance sheet information	Trans 140.08	Copies required
Trans 140.04	Asset reporting	Trans 140.09	General requirements
Trans 140.05	Liability reporting	Trans 140.10	Bonding

Trans 140.01 Purpose and scope. (1) **STATUTORY AUTHORITY.** As authorized by ss. 110.06 (1), 218.01 (5), 218.25, and 227.014, Stats., the purpose of this chapter is to establish the department's administrative interpretation of s. 218.01 (2) (b), (h) and (j) and (3) (a)1 and 7, Stats., relating to the financial qualifications of motor vehicle wholesaler and dealer license applicants, s. 218.11 (3) and (6) (a) and (g), Stats., relating to the financial qualifications of mobile home dealer license applicants, s. 218.21 (1), (1m), (4) and (6), and 218.22 (1) and (3) (a) and (g), Stats., relating to the financial qualifications of motor vehicle salvage dealer license applicants, and s. 218.41 (2) (c) and (3) (a), Stats., relating to the financial qualifications of moped dealer license applicants.

(2) **APPLICABILITY.** (a) This chapter applies to any sole proprietorship, partnership or corporate entity applying for or holding a Wisconsin dealer's license under any of the statute sections cited in sub. (1).

(b) The provisions of this chapter do not apply to an applicant for a motor vehicle dealer license who submits a bond in accordance with s. 218.01 (2) (j).

Note: Forms used in this chapter are: MVD-2195 Financial Statement, MVD-2077 Motor Vehicle Dealer, Mobile Home Dealer or Salesperson Bond, MVD-2077A Moped Dealer Bond, MVD 2511 Motor Vehicle Dealer Bond and MVD 2497 Motor Vehicle Salvage Dealer Bond.

History: Cr. Register, March, 1985, No. 351, eff. 4-1-85.

Trans 140.02 Definitions. In this chapter:

(1) "Discounted" means an asset which is not considered at full value when determining the financial statement net worth.

(2) "Financial statement" means a balance sheet showing assets, liabilities, and net worth.

(3) "Intangible asset" means an asset which does not have a readily determined value, such as goodwill, and is not generally offered for sale.

(4) "Major liability" means a liability equal to or greater than 10% of the total liabilities listed on the financial statement.

(5) "Net worth" means the difference between the asset and liability values on a balance sheet. Negative net worth is the excess of liabilities over assets.

(6) "Pro-forma statement" means a statement presented anticipating some event or events which will occur in the future.

(7) "Substantial portion of the assets" means a value greater than 30% of all assets.

History: Cr. Register, March, 1985, No. 351, eff. 4-1-85.

Trans 140.03 Balance sheet information. (1) All license applicants shall submit a balance sheet dated not more than 90 days prior to the date of application, that is prepared in accordance with generally accepted accounting principles. A small business as defined in s. 277.016 which does no interim financial reporting may submit a balance sheet from the close of the business' most recent fiscal year. The balance sheet shall contain the following:

- (a) Assets.
- (b) Liabilities.
- (c) Net worth.
- (d) The signature of one of the corporate officers, partners, or owners.
- (e) The name of any bank or financial institution used by the applicant.
- (f) A schedule of securities owned, if any.
- (g) A schedule of all real property held, its fair market value, book value and the amount and terms of any indebtedness.

(2) Pro-forma statements shall not be accepted.

(3) If the department determines that there has been a misstatement on a financial statement, the misstatement shall be grounds for denial or revocation of the license.

Note: Form MVD-2195 Financial Statement.

History: Cr. Register, March, 1985, No. 351, eff. 4-1-85.

Trans 140.04 Asset reporting. (1) **VALUATION.** The financial statement shall present assets in terms of historical cost or book value of assets. In lieu of a statement presented with historical cost of fixed assets or book value of assets, the department shall consider a statement presenting fair market value information of fixed assets if clearly labeled and accompanied by an appraisal report of a certified appraiser or tax appraisal.

(2) **CASH.** Whenever a substantial portion of the assets of an entity is in the form of cash, confirmation of the amount is required from the financial institution holding the cash.

(3) **RECEIVABLES.** When a substantial portion of the assets of an entity are in the form of receivables from another individual, partnership or corporation, all or part of the receivables shall be discounted in considering the net worth of the applicant. In order to evaluate the quality of a receivable, a financial statement from the individual, partnership or corporation may be required. In no case will the department discount factory receivables.

(4) **INVENTORY.** The financial statement shall include the number of units in inventory and the number of units floor planned or used for loan collateral. A GAAP presentation of inventory values would not allow for

the use of a reserve account for balance sheet information compiled for external purposes. As an exception to a GAAP presentation, the department will allow the use of a reserve account to accurately assess the value of inventory.

(5) **CERTAIN ASSETS NOT TO BE CONSIDERED.** The department shall not consider the following assets in evaluating the financial statement of an applicant:

(a) As specified in s. 815.20, Stats, equity in homestead property up to \$25,000;

(b) As specified in s. 815.18, Stats., items of personal property which are exempt from execution;

(c) Any intangible asset values;

(d) Leasehold improvements; and

(e) All other assets subject to prior liens, security agreements, or other pledges.

History: Cr. Register, March, 1985, No. 351, eff. 4-1-85.

Trans 140.05 Liability reporting. (1) **REPORTING.** All liabilities and contingent liabilities shall be reported. The terms, amount and conditions of any major liabilities shall be separately scheduled. This schedule should show the names of individuals or institutions who hold the debt, the amount of debt, and the terms of repayment. A list of customers and the amounts on deposit with the dealer should be attached to the financial statement.

(2) **RATIO ANALYSIS.** A ratio analysis comparing liabilities with assets shall be used to evaluate a dealer's financial potential. Current liabilities which exceed current assets shall be grounds for the denial, suspension or revocation of a dealer's license. An exception to this section will be when the current ratio is less than 1 to 1 solely due to the manner the dealership has chosen to account for leasing operations.

History: Cr. Register, March, 1985, No. 351, eff. 4-1-85.

Trans 140.06 Net worth reporting. (1) **TREASURY STOCK.** Treasury stock held by a corporation shall be reported separately on the balance sheet and clearly labeled as treasury stock.

(2) **PREVIOUS PROFIT.** Profit from the previous period of operations shall be reported separately in the net worth section of the balance sheet.

(3) **NEGATIVE NET WORTH.** A financial statement with a negative net worth is evidence of lack of financial ability to conduct business and the license shall be denied or revoked.

History: Cr. Register, March, 1985, No. 351, eff. 4-1-85.

Trans 140.07 Types of entities. (1) **SOLE PROPRIETORSHIPS.** A sole proprietorship may report the entire value of assets jointly owned by the sole proprietor and by one or more persons on its financial statement. The financial statement shall be signed by the sole proprietor.

Note: An example of a joint asset would be a home owned by the sole proprietor and his or her spouse.

(2) **PARTNERSHIPS.** Partnerships shall submit a statement for the partnership as a whole and individual statements for each of the general partners. If the partnership agreement provides for anything other than an equal sharing by the partners, it shall be prominently noted on the statements. The provisions of sub. (1) relating to the listing of jointly owned assets also apply to this subsection.

(3) **CORPORATIONS.** (a) A financial statement is required for the corporation which will hold the license. A financial statement of a controlling corporation, parent corporation or an interlocking corporation may be submitted, but shall not be substituted for the financial statement of the applicant.

(b) The individual who holds the office of president of a corporation may not also hold either the office of secretary or vice president, as specified by s. 180.41 Stats.

History: Cr. Register, March, 1985, No. 351, eff. 4-1-85.

Trans 140.08 Copies required. Salvage dealers, motor vehicle wholesalers, and moped dealers shall file one copy of their financial statement with the department. All other dealers shall file their financial statements in duplicate. The department shall forward the duplicate copy to the co-licensor, the office of the commissioner of banking.

History: Cr. Register, March, 1985, No. 351, eff. 4-1-85.

Trans 140.09 General requirements. (1) **OPERATING STATEMENT.** If required by the department, the applicant shall submit an income statement or other financial statement. The department may require a dealer to submit updated financial information during the license year if questions arise regarding the dealer's financial condition.

(2) **ACCEPTABLE NET WORTH.** (a) The following guidelines are used in determining the acceptable level of net worth of an applicant:

NET WORTH CRITERIA

Dealer Type	Annual Vehicle Sales Volume				
	New	1-10	11-50	50-150	Over 150
New Auto or Truck	\$15,000	\$20,000	\$25,000	\$ 50,000	\$ 75,000
Used Auto or Truck	\$10,000	\$10,000	\$15,000	\$ 30,000	\$ 35,000
Mobile Home	\$25,000	\$25,000	\$50,000	\$100,000	\$150,000
Motor Vehicle Salvage	\$ 5,000				
Motor Vehicle Wholesaler	\$ 7,500	\$ 7,500	\$10,000	\$20,000	\$ 25,000
Moped and Motorcycles	\$ 7,500	\$ 7,500	\$10,000	\$ 20,000	\$ 25,000

(b) The department may deny the license of an applicant who fails to meet the net worth criteria set out in para. (a).

History: Cr. Register, March, 1985, No. 351, eff. 4-1-85.

Trans 140.10 Bonding. (1) **FORM.** As provided by s. 218.02 (2) (h), Stats., a surety bond is the only acceptable form of security. The surety Register, March, 1985, No. 351

bond shall be filed on a form prescribed by the department and issued by a bonding company licensed by the State of Wisconsin.

Note: Form MVD 2077 Motor Vehicle Dealer, Mobile Home Dealer, or Salesperson Bond, MVD 2077A Moped Dealer Bond and MVD 2497 Motor Vehicle Salvage Dealer Bond.

(2) **WHEN REQUIRED.** In accordance with s. 218.01 (2) (h), Stats., the department may require a surety bond of not less than \$5,000, nor more than \$15,000, when the applicant does not meet the net worth guidelines specified in this chapter. The amount of the bond required is determined by the dealer's financial statement, the sales volume, or anticipated sales volume of the dealer, and the financial history and stability of the dealer.

Note: Form MVD 2077, MVD 2077A and MVD 2497.

(3) **WHEN OPTIONAL.** An applicant for a motor vehicle dealer license may meet the financial responsibility requirement of licensing by submitting a surety bond in lieu of a financial statement. That bond shall be in an amount not less than \$25,000, as required by s. 218.01 (2) (j) and 218.21 (4), Stats.

Note: Form MVD 2511, Motor Vehicle Dealers Bond.

History: Cr. Register, March, 1985, No. 351, eff. 4-1-85.

Next page is numbered 230-1

*Emergency on 140.70 - 140.76
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