

TENNESSEE QUALITY AWARD, INC.
D/B/A TENNESSEE CENTER FOR
PERFORMANCE EXCELLENCE

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2005 AND 2004

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE**

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BELLENFANT + MILES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Tennessee Quality Award, Inc. d/b/a
Tennessee Center For Performance Excellence
Nashville, Tennessee

We have audited the accompanying statement of financial position of Tennessee Quality Award, Inc. d/b/a Tennessee Center For Performance Excellence ("TNCPE") as of December 31, 2005 and 2004, and the related statement of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the TNCPE's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tennessee Quality Award, Inc. d/b/a Tennessee Center For Performance Excellence as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

June 16, 2006

Bellenfant & Miles, P.C.

TENNESSEE QUALITY AWARD, INC. D/B/A
 TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
 STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2005 AND 2004

ASSETS

	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 15,353	\$ 4,424
Accounts receivable	28,596	21,345
Contributions receivable	83,000	115,250
Office and equipment, net accumulated depreciation	<u>5,954</u>	<u>8,608</u>
TOTAL ASSETS	<u>\$ 132,903</u>	<u>\$ 149,627</u>

LIABILITIES AND NET ASSETS

<u>Liabilities</u>		
Accounts payable	\$ 24,238	\$ 25,491
Obligation under capital lease	<u>1,925</u>	<u>5,963</u>
Total Liabilities	<u>26,163</u>	<u>31,454</u>
<u>Net Assets</u>		
Unrestricted	23,740	2,923
Temporarily restricted	<u>83,000</u>	<u>115,250</u>
Total Net Assets	<u>106,740</u>	<u>118,173</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 132,903</u>	<u>\$ 149,627</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
STATEMENTS OF ACTIVITIES
DECEMBER 31, 2005 AND 2004

	2005			2004		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Support and Revenue</u>						
Public Support:						
Contributions and memberships	\$ 121,625	\$ 22,750	\$ 144,375	\$ 175,169	\$ 100,500	\$ 275,669
Application and site visit fees	61,552	-	61,552	49,805	-	49,805
Special events - banquet	19,047	-	19,047	24,340	-	24,340
Conference and workshops	67,608	-	67,608	57,572	-	57,572
Other	5,400	-	5,400	2,243	-	2,243
Net assets released in satisfaction of time restrictions	55,000	(55,000)	-	15,000	(15,000)	-
 TOTAL REVENUES	 330,232	 (32,250)	 297,982	 324,129	 85,500	 409,629
 <u>Expenses</u>						
Program services:						
Quality award program	274,604	-	274,604	307,932	-	307,932
Supporting services:						
Management and general	24,587	-	24,587	30,143	-	30,143
Fundraising	10,224	-	10,224	11,993	-	11,993
 TOTAL EXPENSES	 309,415	 -	 309,415	 350,068	 -	 350,068
 CHANGE IN NET ASSETS	 20,817	 (32,250)	 (11,433)	 (25,939)	 85,500	 59,561
NET ASSETS - BEGINNING OF YEAR	2,923	115,250	118,173	28,862	29,750	58,612
NET ASSETS - END OF YEAR	\$ 23,740	\$ 83,000	\$ 106,740	\$ 2,923	\$ 115,250	\$ 118,173

The accompanying notes are an integral part of these financial statements.

TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
STATEMENTS OF ACTIVITIES
DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets:	\$ (11,433)	\$ 59,561
Adjustments to reconcile change in unrestricted assets to net cash flows provided (used) by operating activities:		
Depreciation of office and equipment	2,654	2,677
(Increase) Decrease in operating assets:		
Accounts receivable	(7,251)	(2,200)
Contributions receivable	32,250	(85,500)
Increase (Decrease) in operating liabilities:		
Accounts payable	<u>(1,253)</u>	<u>14,275</u>
Net cash (used) provided by operating activities	<u>14,967</u>	<u>(11,187)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligation	<u>(4,038)</u>	<u>(3,539)</u>
Net cash used for financing activities	<u>(4,038)</u>	<u>(3,539)</u>
Net increase (decrease) in cash and cash equivalents	10,929	(14,726)
Cash - beginning of year	<u>4,424</u>	<u>19,150</u>
Cash - end of year	<u><u>\$ 15,353</u></u>	<u><u>\$ 4,424</u></u>

The accompanying notes are an integral part of these financial statements.

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
STATEMENTS OF FUNCTIONAL EXPENSES
DECEMBER 31, 2005 AND 2004**

	2005				2004			
	Program Services	Supporting Services			Program Services	Supporting Services		
	Quality Award Program	Management & General	Fundraising	Total	Quality Award Program	Management & General	Fundraising	Total
Salaries and related benefits	\$ 143,919	\$ 16,932	\$ 8,466	\$ 169,317	\$ 176,912	\$ 20,813	\$ 10,407	\$ 208,132
Administrative fees	7,196	847	423	8,466	8,694	1,023	511	10,228
Board of examiner selection, training, per diem and marketing costs	13,950	-	-	13,950	13,417	-	-	13,417
Conferences and workshops	15,472	-	-	15,472	18,580	-	-	18,580
Marketing	3,162	372	186	3,720	1,615	190	95	1,900
Office maintenance	5,651	665	332	6,648	4,540	534	267	5,341
Office supplies	1,905	224	112	2,241	1,856	219	109	2,184
Other	4,354	-	-	4,354	3,454	-	-	3,454
Postage	5,060	-	-	5,060	5,050	-	-	5,050
Printing	18,101	-	-	18,101	10,594	-	-	10,594
Professional services	-	4,135	-	4,135	-	6,155	-	6,155
Recognition and banquet expenses	32,569	-	-	32,569	38,829	-	-	38,829
Rent	8,884	1,045	522	10,451	8,884	1,045	522	10,451
Telephone	3,121	367	183	3,671	1,396	164	82	1,642
Travel	8,606	-	-	8,606	11,434	-	-	11,434
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	271,950	24,587	10,224	306,761	305,255	30,143	11,993	347,391
Depreciation of furniture and equipment	2,654	-	-	2,654	2,677	-	-	2,677
TOTAL FUNCTIONAL EXPENSES	\$ 274,604	\$ 24,587	\$ 10,224	\$ 309,415	\$ 307,932	\$ 30,143	\$ 11,993	\$ 350,068

The accompanying notes are an integral part of these financial statements.

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Organization and Purpose:

Tennessee Quality Award, Inc. d/b/a Tennessee Center for Performance Excellence ("TNCPE") is a Tennessee not-for-profit corporation established in 1993 to promote and accelerate the economic well being of the State of Tennessee by fostering quality awareness and education, recognizing significant achievements, and sharing winning strategies and best practices among all companies and organizations. TNCPE works in tandem with public and private organizations to achieve performance excellence. TNCPE is governed by an independent Board of Directors.

Contributions and support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, the support is reported as unrestricted.

Cash and cash equivalents

Cash and cash equivalents consist principally of checking account balances with financial institutions.

Contributions receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

As of December 31, 2005, an allowance for uncollectible amounts has not been provided on contributions receivable since, in management's opinion, the receivable is fully collectible, based on past history.

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Income taxes

TNCPE has been determined by the Internal Revenue Service to be exempt from federal income tax under section 501 (c)(3) of the Internal Revenue Code. Accordingly, the financial statements do not reflect a provision for income taxes.

Office and equipment

Office and equipment are stated at acquisition cost, or estimated fair market value if donated, less accumulated depreciation, which is computed by the straight-line method over an estimated useful life of five years.

Program and supporting services

The following program and supporting services are included in the accompanying financial statements.

Quality Award Program - consists of program services to businesses and institutions in the state that wish to share in value and achievements associated with continuous improvement. The program creates a system for measuring progress toward quality improvement and awareness. Services provided include evaluation, assessment, education and recognition. Participants in the program are honored annually at the awards banquet. TNCPE also provides training through various workshops and an annual conference.

Management and General - includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program or activity. Includes costs associated with providing coordination and articulation of TNCPE's strategy, business management, general recordkeeping, budgeting and related purposes.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitation and creation and distribution of fundraising materials.

Allocation of functional expenses

Expenses that can be directly attributed to a particular function are charged to the function. Expenses that relate to more than one function are allocated among applicable functions on the basis of objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Donated services

Support and expenses for contributed services that require specialized skills, and would be purchased if not provided by the donor, are recognized at the fair value of the services received.

No contributed services have been recognized in the accompanying financial statements. However, the donated services of the board of examiners for the Quality Award Program are critical to TNCPE's success. The board of examiners is comprised of leading quality, business, healthcare and education experts from across the state that conduct evaluations, consensus and site visits for organizations in both the public and private sectors. Without this significant donation of volunteer hours, TNCPE could not offer the level of service it offers to its constituency.

A summary of non-recognized volunteer services provided to TNCPE in 2005 and 2004 follows:

	(Unaudited)	
	2005	2004
Number of business and industry professional volunteers	99	95
Volunteer hours donated	10,677	7,350
Number of organizations served	40	35

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly actual amounts could differ from those estimates.

2. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following as of December 31:

	2005	2004
Temporarily restricted:		
Less than one year	\$ 50,000	\$ 55,000
One to five years	35,000	65,000
	85,000	120,000
Less discounts to net present value	(2,000)	(4,750)
Net contributions receivable	\$ 83,000	\$ 115,250

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004**

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	<u>2005</u>	<u>2004</u>
Computer and related equipment	\$ 24,808	\$ 24,808
Less accumulated depreciation	<u>(18,854)</u>	<u>(16,200)</u>
	<u>\$ 5,954</u>	<u>\$ 8,608</u>

4. DONATED RENT

Office space was provided to TNCPE at no cost during 2005 and 2004. Contribution revenue and the related rental expense have been recognized at the fair rental value of the space, which amounted to \$10,000 each year.

5. CONCENTRATIONS OF RISK

Cash is maintained with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per depositor.

6. CAPITAL LEASE

On June 18, 2003, TNCPE entered into an agreement, accounted for as a capital lease, to acquire certain computer equipment. The lease contains an option to purchase the equipment for \$1 at the end of the lease term. The equipment and the related liability were recorded during 2003 based on the fair value of the leased equipment at the inception of the lease. The obligation requires 36 monthly lease payments of \$374, including interest, through June 2006. The equipment has a capitalized cost of \$10,665 and a net book value of \$5,539 as of December 31, 2004.

<u>Year Ending December 31:</u>	
2006	<u>2,120</u>
Total minimum lease payments	2,120
Less amount representing interest	<u>(195)</u>
Present value of net minimum lease payments	<u>\$ 1,925</u>