

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2012 AND 2011

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

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BELLENFANT + MILES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Tennessee Quality Award, Inc. d/b/a Tennessee Center for Performance Excellence, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bellenfant & Miles, PLLC

July 30, 2013

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011**

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 101,175	\$ 115,223
Investments	238,845	238,962
Grant receivable	21,867	5,720
Accounts receivable	76,200	96,940
	<u>438,087</u>	<u>456,845</u>
Office Equipment	30,097	29,326
Less: Accumulated Depreciation	<u>(28,756)</u>	<u>(28,178)</u>
	<u>1,341</u>	<u>1,148</u>
TOTAL ASSETS	<u><u>\$ 439,428</u></u>	<u><u>\$ 457,993</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 72,805	\$ 69,778
	<u>72,805</u>	<u>69,778</u>
TOTAL LIABILITIES	<u>72,805</u>	<u>69,778</u>
Net Assets		
Unrestricted	366,623	388,215
	<u>366,623</u>	<u>388,215</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 439,428</u></u>	<u><u>\$ 457,993</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 ACTIVITIES
DECEMBER 31, 2012 AND 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Public Support:						
Contributions and Memberships	\$ 227,825	\$ -	\$ 227,825	\$ 243,325	\$ -	\$ 243,325
Application and Site Visit Fees	145,943	-	145,943	107,166	-	107,166
Three Star Grant	-	-	-	-	-	-
Department of Labor and Workforce Development Grant	105,669	-	105,669	96,804	-	96,804
Department of Economic and Community Development						
Leadership Grant	-	-	-	74,687	-	74,687
NIST Bridgeway Training Grant	-	-	-	7,172	-	7,172
Special Events - Banquet	30,616	-	30,616	14,870	-	14,870
Conference and Workshops	140,260	-	140,260	156,801	-	156,801
Interest	3,147	-	3,147	4,203	-	4,203
Examiner Training Fees	3,675	-	3,675	-	-	-
Other	3,974	-	3,974	5,277	-	5,277
Realized and Unrealized Gain (Loss) on Investments	(3,151)	-	(3,151)	(1,743)	-	(1,743)
Net Assets Released in Satisfaction of Time Restrictions	-	-	-	7,125	(7,125)	-
TOTAL REVENUES	657,958	-	657,958	715,687	(7,125)	708,562
Expenses						
Program services:						
Quality Award Program	485,044	-	485,044	403,211	-	403,211
Three Star Grant	-	-	-	105,741	-	105,741
Department of Labor and Workforce Development Grant	98,728	-	98,728	96,804	-	96,804
Supporting services:						
Management and General	63,850	-	63,850	59,536	-	59,536
Fundraising	31,928	-	31,928	29,766	-	29,766
TOTAL EXPENSES	679,550	-	679,550	695,058	-	695,058
CHANGE IN NET ASSETS	(21,592)	-	(21,592)	20,629	(7,125)	13,504
NET ASSETS - BEGINNING OF YEAR	388,215	-	388,215	367,586	7,125	374,711
NET ASSETS - END OF YEAR	\$ 366,623	\$ -	\$ 366,623	\$ 388,215	\$ -	\$ 388,215

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

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
STATEMENT OF FUNCTIONAL EXPENSES
DECEMBER 31, 2012**

2012							
	Program Services			Supporting Services			
	Quality Award Program	Three Star Grant	Department of Labor and Workforce Development Grant	Total	Management and General	Fundraising	
			Total				
Salaries and related benefits	\$ 237,341	\$ -	\$ 82,661	\$ 320,002	\$ 37,647	\$ 18,824	\$ 376,473
Administrative fees	12,155	-	-	12,155	1,430	715	14,300
Board of examiner selection, training, per diem and marketing costs	38,321	-	-	38,321	4,508	2,255	45,084
Conferences and workshops	46,010	-	-	46,010	5,413	2,706	54,129
Marketing	2,953	-	-	2,953	347	174	3,474
Office maintenance	5,540	-	-	5,540	652	326	6,518
Office supplies	3,062	-	-	3,062	360	180	3,602
Other	13,508	-	-	13,508	1,589	795	15,892
Postage	10,815	-	-	10,815	1,272	637	12,724
Printing	15,360	-	-	15,360	1,807	903	18,070
Professional services	16,355	-	-	16,355	1,924	962	19,241
Recognition and banquet expenses	40,199	-	-	40,199	4,729	2,365	47,293
Non-personnel grant expenses	21,381	-	16,067	37,448	-	-	37,448
Leadership grant payments	-	-	-	-	-	-	-
NIST Baldridge training grant expenses	2,500	-	-	2,500	-	-	2,500
Rent	8,500	-	-	8,500	1,000	500	10,000
Telephone	2,245	-	-	2,245	264	132	2,641
Travel	7,721	-	-	7,721	908	454	9,083
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	483,966	-	98,728	582,694	63,850	31,928	678,472
Depreciation of office equipment	1,078	-	-	1,078	-	-	1,078
TOTAL FUNCTIONAL EXPENSES	\$ 485,044	\$ -	\$ 98,728	\$ 583,772	\$ 63,850	\$ 31,928	\$ 679,550

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

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
STATEMENT OF FUNCTIONAL EXPENSES
DECEMBER 31, 2011**

2011

	Program Services			Supporting Services		
	Department of Labor and Workforce Development Grant			Management and General		
	Quality Award Program	Three Star Grant	Total	Management and General	Fundraising	Total
Salaries and related benefits	\$ 169,682	\$ 55,124	\$ 299,457	\$ 35,230	\$ 17,615	\$ 352,302
Administrative fees	8,147	2,674	10,821	1,273	637	12,731
Board of examiner selection, training, per diem and marketing costs	19,922	1,926	21,848	2,570	1,285	25,703
Conferences and workshops	32,498	15,050	47,548	5,594	2,797	55,939
Marketing	1,023	268	1,291	152	76	1,519
Office maintenance	4,010	2,776	6,786	798	399	7,983
Office supplies	1,932	589	2,521	297	148	2,966
Other	11,775	486	12,261	1,443	721	14,425
Postage	8,244	2,434	10,678	1,256	628	12,562
Printing	13,193	6,847	20,040	2,358	1,178	23,576
Professional services	7,546	1,395	8,941	1,052	526	10,519
Recognition and banquet expenses	27,138	14,035	41,173	4,844	2,422	48,439
Non-personnel grant expenses	-	-	22,153	-	-	22,153
Leadership grant payments	74,687	-	74,687	-	-	74,687
NIST Baldrige training grant expenses	2,000	-	2,000	-	-	2,000
Rent	8,500	-	8,500	1,000	500	10,000
Telephone	3,085	555	3,640	428	214	4,282
Travel	8,963	1,582	10,545	1,241	620	12,406
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	402,345	105,741	604,890	59,536	29,766	694,192
Depreciation of office equipment	866	-	866	-	-	866
TOTAL FUNCTIONAL EXPENSES	\$ 403,211	\$ 105,741	\$ 605,756	\$ 59,536	\$ 29,766	\$ 695,058

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 CASH FLOWS
DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets:	\$ (21,592)	\$ 13,504
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,078	866
Unrealized (gain) loss on investments	3,151	1,743
(Increase) Decrease in operating assets:		
Grant receivable	(16,147)	1,709
Accounts receivable	20,740	(22,012)
Contributions receivable	-	7,125
Increase (Decrease) in operating liabilities:		
Accounts payable	3,027	9,959
Unearned revenue	<u>-</u>	<u>(175,000)</u>
Net cash used by operating activities	<u>(9,743)</u>	<u>(162,106)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of office equipment	(1,271)	-
Sale of investments	-	62,993
Purchase of investments	<u>(3,034)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(4,305)</u>	<u>62,993</u>
Net decrease in cash and cash equivalents	(14,048)	(99,113)
Cash - beginning of year	<u>115,223</u>	<u>214,336</u>
Cash - end of year	<u><u>\$ 101,175</u></u>	<u><u>\$ 115,223</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
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

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 1992 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.

Basis of Presentation

The financial statements of TNCPE are presented on the accrual basis of accounting. Revenue is generally recognized when earned. Expenses are generally recognized when incurred.

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic related to Presentation of Financial Statements of Not-for-Profit Organizations. Under the FASB Accounting Standards Codification, TNCPE is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by the actions of TNCPE and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. As of December 31, 2012 or 2011, TNCPE had no temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that may be maintained permanently by TNCPE. Generally, donors of these assets permit TNCPE to use all or part of the income earned for general or specific purposes. As of December 31, 2012 or 2011, TNCPE had no permanently restricted net assets.

TNCPE accounts for contributions in accordance with the requirements of the FASB Accounting Standards Codification Revenue Recognition Topic. In accordance with the FASB Accounting Standards Codification, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

Office Equipment

Office equipment with an acquisition cost over \$1,000 is capitalized and stated at the acquisition cost, or estimated fair market value if donated, less accumulated depreciation, which is computed using the straight-line method over an estimated useful life of three to 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.

Three Star Grant assists local communities in their efforts to achieve excellence in community and economic development. Focusing on leadership, strategic planning, customers, measurement systems, workforce development, process management and results, the program helps communities become more attractive to new business and build stronger communities with more diverse economies and greater job opportunities.

Department of Labor and Workforce Development Grant consists of program services funded by the Tennessee Department of Labor and Workforce Development, the purpose of which is to provide training for Adult Education providers.

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, 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.

Estimates

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

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

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 2012 and 2011 follows:

	(Unaudited)	
	2012	2011
Number of business and industry professional volunteers	195	175
Volunteer hours donated	19,666	15,574
Number of organizations served	46	35

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.

TNCPE has evaluated its tax positions in accordance with the Codification Standard relating to Accounting for Uncertainty in Income Taxes. TNCPE believes that it has taken no uncertain tax positions.

TNCPE files a U.S. Federal Form 990-*Return of Organization Exempt from Income Tax*. The TNCPE's returns for the years prior to calendar year 2009 are no longer open for examination.

Accounts Receivable

As of December 31, 2012 and 2011, an allowance for uncollectible amounts has not been provided on accounts receivable since, in management's opinion, the receivable is fully collectible, based on past history.

Grant Receivable

Grant receivable represents the amount due from the Department of Labor and Workforce Development grant.

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash and cash equivalents consist of accounts with financial institutions. TNCPE considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The following methods and assumptions were used by TNCPE in estimating fair value disclosures for financial instruments.

Cash, cash equivalents, investments, receivables, and payables: The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

2. FAIR VALUE OF INVESTMENTS

TNCPE's investments are reported at fair value in the accompanying statements of financial position.

Fair Value Measurements at December 31, 2012 Using:				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds-Equities	\$ 238,845	\$ 238,845	\$ -	\$ -

Fair Value Measurements at December 31, 2011 Using:				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds-Equities	\$ 238,962	\$ 238,962	\$ -	\$ -

The Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic relating to Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs and have the lowest priority. TNCPE uses the appropriate valuation techniques based on the available inputs to measure the fair value of its investments. At December 31, 2012 and 2011, TNCPE had no Level 2 or Level 3 investments.

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011**

3. OFFICE EQUIPMENT

Office equipment consists of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Computers and related equipment	\$ 30,097	\$ 29,326
Less accumulated depreciation	<u>(28,756)</u>	<u>(28,178)</u>
	<u>\$ 1,341</u>	<u>\$ 1,148</u>

4. IN-KIND CONTRIBUTIONS

The following goods and services were donated to TNCPE during the years ended December 31:

	<u>2012</u>	<u>2011</u>
Rent	<u>\$ 10,000</u>	<u>\$ 10,000</u>

5. COMPENSATED ABSENCES

Employees of TNCPE are entitled to paid vacation days. It is impractical to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the accompanying financial statements. TNCPE's policy is to recognize the cost of compensated absences when actually paid to employees.

6. RELATED PARTY

TNCPE has an agreement with Nashville State Community College in which Nashville State Community College is responsible for the payroll administration of TNCPE. This includes the responsibilities of TNCPE payroll, maintaining all financial records and other duties related to the fiscal affairs of the TNCPE payroll.

TNCPE pays Nashville State Community College a five percent management fee as payment for the expenses associated with the fiscal administration of the TNCPE payroll.

7. PENSION

TNCPE maintains a SIMPLE IRA (Savings Incentive Match Plan for Employees). Pension costs were \$3,847 and \$3,608 for the years ended December 31, 2012 and 2011, respectively. TNCPE matches employee contributions up to 3% of an employee's salary. Employees are allowed to participate if they received at least \$5,000 in compensation during any two years prior to the current year, and are reasonably expected to receive at least \$5,000 in compensation during the calendar year for which contributions are made.

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 18, 2013 which is the date the financial statements were available to be issued.

As of January 1, 2013, Nashville State Community College is no longer responsible for the payroll administration of TNCPE. TNCPE now handles payroll internally.