

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

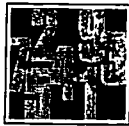
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2006 AND 2005

**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, 2006 and 2005, 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, 2006 and 2005, 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 29, 2007

Bellenfant & Miles, P.C.

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2005**

ASSETS

| | <u>2006</u> | <u>2005</u> |
|---|--------------------------|--------------------------|
| <u>Assets</u> | | |
| Cash and cash equivalents | \$ 89,760 | \$ 15,353 |
| Accounts receivable | 19,124 | 28,596 |
| Contributions receivable | 70,750 | 83,000 |
| Office and equipment, net accumulated depreciation | <u>3,491</u> | <u>5,954</u> |
| TOTAL ASSETS | <u><u>\$ 183,125</u></u> | <u><u>\$ 132,903</u></u> |

LIABILITIES AND NET ASSETS

| | | |
|---|--------------------------|--------------------------|
| <u>Liabilities</u> | | |
| Accounts payable | \$ 36,765 | \$ 24,238 |
| Obligation under capital lease | <u>-</u> | <u>1,925</u> |
| Total Liabilities | <u>36,765</u> | <u>26,163</u> |
| <u>Net Assets</u> | | |
| Unrestricted | 75,610 | 23,740 |
| Temporarily restricted | <u>70,750</u> | <u>83,000</u> |
| Total Net Assets | <u>146,360</u> | <u>106,740</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 183,125</u></u> | <u><u>\$ 132,903</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, 2006 AND 2005**

| | 2006 | | | 2005 | | |
|--|------------------|---------------------------|-------------------|------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| <u>Support and Revenue</u> | | | | | | |
| Public Support: | | | | | | |
| Contributions and memberships | \$ 130,040 | \$ 37,750 | \$ 167,790 | \$ 121,625 | \$ 22,750 | \$ 144,375 |
| Application and site visit fees | 89,116 | - | 89,116 | 61,552 | - | 61,552 |
| Special events - banquet | 22,987 | - | 22,987 | 19,047 | - | 19,047 |
| Conference and workshops | 99,568 | - | 99,568 | 67,608 | - | 67,608 |
| Other | 7,680 | - | 7,680 | 5,400 | - | 5,400 |
| Net assets released in satisfaction of time restrictions | 50,000 | (50,000) | - | 55,000 | (55,000) | - |
| TOTAL REVENUES | 399,391 | (12,250) | 387,141 | 330,232 | (32,250) | 297,982 |
| <u>Expenses</u> | | | | | | |
| Program services: | | | | | | |
| Quality award program | 309,387 | - | 309,387 | 274,604 | - | 274,604 |
| Supporting services: | | | | | | |
| Management and general | 26,715 | - | 26,715 | 24,587 | - | 24,587 |
| Fundraising | 11,419 | - | 11,419 | 10,224 | - | 10,224 |
| TOTAL EXPENSES | 347,521 | - | 347,521 | 309,415 | - | 309,415 |
| CHANGE IN NET ASSETS | 51,870 | (12,250) | 39,620 | 20,817 | (32,250) | (11,433) |
| NET ASSETS - BEGINNING OF YEAR | 23,740 | 83,000 | 106,740 | 2,923 | 115,250 | 118,173 |
| NET ASSETS - END OF YEAR | \$ 75,610 | \$ 70,750 | \$ 146,360 | \$ 23,740 | \$ 83,000 | \$ 106,740 |

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, 2006 AND 2005**

| | <u>2006</u> | <u>2005</u> |
|---|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets: | \$ 39,620 | \$ (11,433) |
| Adjustments to reconcile change in unrestricted assets to net cash flows provided (used) by operating activities: | | |
| Depreciation of office and equipment | 2,463 | 2,654 |
| (Increase) Decrease in operating assets: | | |
| Accounts receivable | 9,472 | (7,251) |
| Contributions receivable | 12,250 | 32,250 |
| Increase (Decrease) in operating liabilities: | | |
| Accounts payable | <u>12,527</u> | <u>(1,253)</u> |
| Net cash (used) provided by operating activities | <u>76,332</u> | <u>14,967</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on capital lease obligation | <u>(1,925)</u> | <u>(4,038)</u> |
| Net cash used for financing activities | <u>(1,925)</u> | <u>(4,038)</u> |
| Net increase (decrease) in cash and cash equivalents | 74,407 | 10,929 |
| Cash - beginning of year | <u>15,353</u> | <u>4,424</u> |
| Cash - end of year | <u><u>\$ 89,760</u></u> | <u><u>\$ 15,353</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, 2006 AND 2005**

| | 2006 | | | | 2005 | | | |
|--|--------------------------|-------------------------|------------------|-------------------|--------------------------|-------------------------|------------------|-------------------|
| | 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 | \$ 159,348 | \$ 18,747 | \$ 9,373 | \$ 187,468 | \$ 143,919 | \$ 16,932 | \$ 8,466 | \$ 169,317 |
| Administrative fees | 7,968 | 937 | 469 | 9,374 | 7,196 | 847 | 423 | 8,466 |
| Board of examiner selection, training, per diem and marketing costs | 21,380 | - | - | 21,380 | 13,950 | - | - | 13,950 |
| Conferences and workshops | 18,223 | - | - | 18,223 | 15,472 | - | - | 15,472 |
| Marketing | 3,702 | 436 | 218 | 4,356 | 3,162 | 372 | 186 | 3,720 |
| Office maintenance | 5,260 | 619 | 309 | 6,188 | 5,651 | 665 | 332 | 6,648 |
| Office supplies | 6,022 | 708 | 354 | 7,084 | 1,905 | 224 | 112 | 2,241 |
| Other | 7,666 | - | - | 7,666 | 4,354 | - | - | 4,354 |
| Postage | 4,079 | - | - | 4,079 | 5,060 | - | - | 5,060 |
| Printing | 14,122 | - | - | 14,122 | 18,101 | - | - | 18,101 |
| Professional services | - | 3,875 | - | 3,875 | - | 4,135 | - | 4,135 |
| Recognition and banquet expenses | 36,488 | - | - | 36,488 | 32,569 | - | - | 32,569 |
| Rent | 8,884 | 1,045 | 522 | 10,451 | 8,884 | 1,045 | 522 | 10,451 |
| Telephone | 2,956 | 348 | 174 | 3,478 | 3,121 | 367 | 183 | 3,671 |
| Travel | 10,826 | - | - | 10,826 | 8,606 | - | - | 8,606 |
| TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION | 306,924 | 26,715 | 11,419 | 345,058 | 271,950 | 24,587 | 10,224 | 306,761 |
| Depreciation of furniture and equipment | 2,463 | - | - | 2,463 | 2,654 | - | - | 2,654 |
| TOTAL FUNCTIONAL EXPENSES | \$ 309,387 | \$ 26,715 | \$ 11,419 | \$ 347,521 | \$ 274,604 | \$ 24,587 | \$ 10,224 | \$ 309,415 |

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, 2006 AND 2005**

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, 2006, 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, 2006 AND 2005**

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, 2006 AND 2005**

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 2006 and 2005 follows:

| | (Unaudited) | |
|---|-------------|--------|
| | 2006 | 2005 |
| Number of business and industry professional volunteers | 116 | 99 |
| Volunteer hours donated | 8,993 | 10,677 |
| Number of organizations served | 29 | 40 |

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:

| | 2006 | 2005 |
|-------------------------------------|------------------|------------------|
| Temporarily restricted: | | |
| Less than one year | \$ 37,500 | \$ 50,000 |
| One to five years | 35,000 | 35,000 |
| | 72,500 | 85,000 |
| Less discounts to net present value | (1,750) | (2,000) |
| Net contributions receivable | <u>\$ 70,750</u> | <u>\$ 83,000</u> |

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006 AND 2005**

3. PROPERTY AND EQUIPMENT

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

| | <u>2006</u> | <u>2005</u> |
|--------------------------------|-----------------|-----------------|
| Computer and related equipment | \$ 24,808 | \$ 24,808 |
| Less accumulated depreciation | <u>(21,317)</u> | <u>(18,854)</u> |
| | <u>\$ 3,491</u> | <u>\$ 5,954</u> |

4. DONATED RENT

Office space was provided to TNCPE at no cost during 2006 and 2005. 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.