

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2016 AND 2015

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
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, 2016 and 2015, 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.

Auditor's 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 auditor's 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, 2016 and 2015, 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, PLLC

May 31, 2017

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

ASSETS

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and Cash Equivalents	\$ 238,309	\$ 182,500
Investments	244,008	231,475
Accounts Receivable	<u>24,185</u>	<u>36,265</u>
Total Current Assets	<u>506,502</u>	<u>450,240</u>
Office Equipment	8,722	7,708
Less: Accumulated Depreciation	<u>(7,301)</u>	<u>(6,218)</u>
Total Noncurrent Assets	<u>1,421</u>	<u>1,490</u>
Total Assets	<u><u>\$ 507,923</u></u>	<u><u>\$ 451,730</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	<u>\$ 9,858</u>	<u>\$ 4,211</u>
Total Current Liabilities	<u>9,858</u>	<u>4,211</u>
Total Liabilities	<u>9,858</u>	<u>4,211</u>
Net Assets		
Unrestricted Net Assets	<u>498,065</u>	<u>447,519</u>
Total Net Assets	<u>498,065</u>	<u>447,519</u>
Total Liabilities and Net Assets	<u><u>\$ 507,923</u></u>	<u><u>\$ 451,730</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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<u>Support and Revenue</u>		
Public Support:		
Contributions and Memberships	\$ 264,285	\$ 255,659
Application and Site Visit Fees	172,593	111,241
Department of Labor and Workforce Development Grant	-	53,980
Special Events - Banquet	26,415	29,210
Conference and Workshops	151,344	148,662
Interest	50	13
Examiner Training Fees	41,000	30,240
Other	4,467	3,291
Realized and Unrealized Gain (Loss) on Investments	14,429	(5,976)
	<u>674,583</u>	<u>626,320</u>
Total Revenues	<u>674,583</u>	<u>626,320</u>
<u>Expenses</u>		
Program services:		
Quality Award Program	532,404	507,378
Department of Labor and Workforce Development Grant	-	39,234
Supporting services:		
Management and General	61,087	61,398
Fundraising	30,546	30,699
	<u>624,037</u>	<u>638,709</u>
Total Expenses	<u>624,037</u>	<u>638,709</u>
Change in Net Assets	50,546	(12,389)
Unrestricted Net Assets - beginning of year	447,519	502,417
Prior Period Adjustment	-	(42,509)
	<u>-</u>	<u>(42,509)</u>
Unrestricted Net Assets - end of year	<u>\$ 498,065</u>	<u>\$ 447,519</u>

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, 2016**

	2016			
	<u>Program Services</u>	<u>Supporting Services</u>		
	<u>Quality Award Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Related Benefits	\$ 290,914	34,225	17,113	\$ 342,252
Administrative Fees	3,000	353	176	3,529
Board of examiner selection, training, per diem and marketing costs	32,355	3,807	1,903	38,065
Conferences and Workshops	49,216	5,790	2,895	57,901
Marketing	14,538	1,710	855	17,103
Office Maintenance	12,394	1,458	729	14,581
Office Supplies	1,939	228	114	2,281
Miscellaneous	7,402	871	437	8,710
Postage	4,040	475	238	4,753
Printing	1,271	150	75	1,496
Professional Services	4,922	579	290	5,791
Recognition and Banquet Expenses	38,153	4,489	2,244	44,886
Credit Card Charges	10,345	1,217	609	12,171
Criteria Expenses	11,442	1,346	673	13,461
Rent	22,950	2,700	1,350	27,000
Bad Debts	12,080	-	-	12,080
Telephone	3,862	454	227	4,543
Travel	10,498	1,235	618	12,351
Total Functional Expenses Before Depreciation	531,321	61,087	30,546	622,954
Depreciation of Office Equipment	<u>1,083</u>	<u>-</u>	<u>-</u>	<u>1,083</u>
Total Functional Expenses	<u>\$ 532,404</u>	<u>\$ 61,087</u>	<u>\$ 30,546</u>	<u>\$ 624,037</u>

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, 2015**

	2015					
	<u>Program Services</u>			<u>Supporting Services</u>		
	<u>Quality Award Program</u>	<u>Department of Labor and Workforce Development Grant</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Related Benefits	\$ 302,024	\$ 24,202	\$ 326,226	\$ 38,379	\$ 19,190	\$ 383,795
Administrative Fees	2,816	-	2,816	331	166	3,313
Board of examiner selection, training, per diem and marketing costs	29,734	-	29,734	3,498	1,749	34,981
Conferences and Workshops	39,868	-	39,868	4,690	2,345	46,903
Marketing	6,073	-	6,073	715	357	7,145
Office Maintenance	14,393	-	14,393	1,693	847	16,933
Office Supplies	2,542	-	2,542	299	150	2,991
Miscellaneous	13,042	-	13,042	1,534	767	15,343
Postage	4,479	-	4,479	527	263	5,269
Printing	864	-	864	102	51	1,017
Professional Services	6,233	-	6,233	733	367	7,333
Recognition and Banquet Expenses	28,760	-	28,760	3,384	1,691	33,835
Non-personnel Grant Expenses	-	15,032	15,032	-	-	15,032
Criteria Expenses	13,036	-	13,036	1,533	766	15,335
Rent	22,950	-	22,950	2,700	1,350	27,000
Bad Debts	8,190	-	8,190	-	-	8,190
Telephone	2,936	-	2,936	345	173	3,454
Travel	7,947	-	7,947	935	467	9,349
Total Functional Expenses Before Depreciation	505,887	39,234	545,121	61,398	30,699	637,218
Depreciation of Office Equipment	1,491	-	1,491	-	-	1,491
Total Functional Expenses	<u>\$ 507,378</u>	<u>\$ 39,234</u>	<u>\$ 546,612</u>	<u>\$ 61,398</u>	<u>\$ 30,699</u>	<u>\$ 638,709</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 CASH FLOWS
DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets:	\$ 50,546	\$ (12,389)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,083	1,491
Unrealized (Gain) Loss on Investments	(14,429)	5,976
(Increase) Decrease in Operating Assets:		
Accounts Receivable	12,080	(21,183)
Grant Receivable	-	7,121
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	<u>5,647</u>	<u>(2,007)</u>
Net cash provided (used) by operating activities	<u>54,927</u>	<u>(20,991)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Office Equipment	(1,014)	-
Purchase of Investments	(100)	-
Sale of Investments	<u>1,996</u>	<u>1,052</u>
Net cash provided (used) by investing activities	<u>882</u>	<u>1,052</u>
Net increase (decrease) in cash and cash equivalents	55,809	(19,939)
Cash - beginning of year	<u>182,500</u>	<u>202,439</u>
Cash - end of year	<u><u>\$ 238,309</u></u>	<u><u>\$ 182,500</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, 2016 AND 2015**

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, 2016 or 2015, 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, 2016 or 2015, 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, 2016 AND 2015**

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.

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, 2016 AND 2015**

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 2016 and 2015 follows:

	(Unaudited)	
	2016	2015
Number of business and industry professional volunteers	176	144
Volunteer hours donated	13,760	12,278
Number of organizations served	44	45

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 2013 are no longer open for examination.

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

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, 2016 Using:				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Mutual Funds-Equities	\$ 244,008	\$ 244,008	\$ -	\$ -

Fair Value Measurements at December 31, 2015 Using:				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Mutual Funds-Equities	\$ 231,475	\$ 231,475	\$ -	\$ -

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, 2016 and 2015, 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, 2016 AND 2015**

3. OFFICE EQUIPMENT

Office equipment consists of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Computers and Related Equipment	\$ 8,722	\$ 7,708
Less: Accumulated Depreciation	<u>(7,301)</u>	<u>(6,218)</u>
	<u>\$ 1,421</u>	<u>\$ 1,490</u>

4. IN-KIND CONTRIBUTIONS

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

	<u>2016</u>	<u>2015</u>
Rent	<u>\$ 27,000</u>	<u>\$ 27,000</u>

5. PENSION

TNCPE maintains a 401(k) pension plan. Pension costs were \$7,080 and \$8,628 for the years ended December 31, 2016 and December 31, 2015 respectively. TNCPE will match the employee's contribution dollar for dollar up to an amount equal to 3% of the employee's annual salary. Each regular full-time and regular part-time employee is eligible to participate provided s/he meets the following requirements: (1) is at least 21 years old and (2) has worked for TNCPE for at least 90 days.

6. PRIOR PERIOD ADJUSTMENT

Due to the cyclical nature of its operations, TNCPE evaluates its receivable balance each year. During this year's audit, TNCPE discovered an overstatement in receivables totaling \$42,509, pertaining to outstanding pledges and accounts receivable.

Net assets, January 1, 2015, originally stated	\$ 490,028
To record prior period adjustment	<u>(42,509)</u>
Net assets, January 1, 2015, restated	<u>\$ 447,519</u>

7. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 31, 2017 which is the date the financial statements were available to be issued.