

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

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2007 AND 2006**

**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, 2007 and 2006, and the related statements 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, 2007 and 2006 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.

*Bellenfant & Miles, P.C.*

June 27, 2008

**TENNESSEE QUALITY AWARD, INC. D/B/A  
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2007 AND 2006**

**ASSETS**

	<u>2007</u>	<u>2006</u>
<b><u>Assets</u></b>		
Cash and cash equivalents	\$ 234,539	\$ 89,760
Accounts receivable	22,789	19,124
Contributions receivable	45,800	70,750
Office and equipment, net accumulated depreciation	<u>3,193</u>	<u>3,491</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 306,321</u></b>	<b><u>\$ 183,125</u></b>

**LIABILITIES AND NET ASSETS**

<b><u>Liabilities</u></b>		
Accounts payable	\$ 30,809	\$ 36,765
Unearned revenue	<u>50,440</u>	<u>-</u>
<b>Total Liabilities</b>	<b><u>81,249</u></b>	<b><u>36,765</u></b>
<b><u>Net Assets</u></b>		
Unrestricted	179,272	75,610
Temporarily restricted	<u>45,800</u>	<u>70,750</u>
<b>Total Net Assets</b>	<b><u>225,072</u></b>	<b><u>146,360</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 306,321</u></b>	<b><u>\$ 183,125</u></b>

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, 2007 AND 2006**

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b><u>Support and Revenue</u></b>						
Public Support:						
Contributions and memberships	\$ 179,676	\$ -	\$ 179,676	\$ 130,040	\$ 37,750	\$ 167,790
Application and site visit fees	100,571	-	100,571	89,116	-	89,116
Three star grant	-	99,560	99,560	-	-	-
Special events - banquet	24,191	-	24,191	22,987	-	22,987
Conference and workshops	84,021	-	84,021	99,568	-	99,568
Other	9,338	-	9,338	7,680	-	7,680
Net assets released in satisfaction of time restrictions	124,510	(124,510)	-	50,000	(50,000)	-
<b>TOTAL REVENUES</b>	<b>522,307</b>	<b>(24,950)</b>	<b>497,357</b>	<b>399,391</b>	<b>(12,250)</b>	<b>387,141</b>
<b><u>Expenses</u></b>						
Program services:						
Quality award program	258,543	-	258,543	309,387	-	309,387
Three star grant	97,640	-	97,640			
Supporting services:						
Management and general	41,168	-	41,168	26,715	-	26,715
Fundraising	21,294	-	21,294	11,419	-	11,419
<b>TOTAL EXPENSES</b>	<b>418,645</b>	<b>-</b>	<b>418,645</b>	<b>347,521</b>	<b>-</b>	<b>347,521</b>
<b>CHANGE IN NET ASSETS</b>	<b>103,662</b>	<b>(24,950)</b>	<b>78,712</b>	<b>51,870</b>	<b>(12,250)</b>	<b>39,620</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>75,610</b>	<b>70,750</b>	<b>146,360</b>	<b>23,740</b>	<b>83,000</b>	<b>106,740</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 179,272</b>	<b>\$ 45,800</b>	<b>\$ 225,072</b>	<b>\$ 75,610</b>	<b>\$ 70,750</b>	<b>\$ 146,360</b>

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**TENNESSEE QUALITY AWARD, INC. D/B/A  
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE  
STATEMENTS OF CASH FLOWS  
DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets:	\$ 78,712	\$ 39,620
Adjustments to reconcile change in unrestricted assets to net cash flows provided (used) by operating activities:		
Depreciation of office and equipment	2,218	2,463
(Increase) Decrease in operating assets:		
Accounts receivable	(3,665)	9,472
Contributions receivable	24,950	12,250
Increase (Decrease) in operating liabilities:		
Accounts payable	(5,956)	12,527
Unearned revenue	<u>50,440</u>	<u>-</u>
Net cash (used) provided by operating activities	<u>146,699</u>	<u>76,332</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Purchase of equipment	(1,920)	-
Payments on capital lease obligation	<u>-</u>	<u>(1,925)</u>
Net cash used for financing activities	<u>(1,920)</u>	<u>(1,925)</u>
Net increase in cash and cash equivalents	144,779	74,407
Cash - beginning of year	<u>89,760</u>	<u>15,353</u>
Cash - end of year	<u><u>\$ 234,539</u></u>	<u><u>\$ 89,760</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  
STATEMENT OF FUNCTIONAL EXPENSES  
DECEMBER 31, 2007**

	2007					
	Program Services			Supporting Services		
	Quality Award Program	Three Star Grant	Total	Management & General	Fundraising	Total
Salaries and related benefits	\$ 120,481	\$ 67,932	\$ 188,413	\$ 22,166	\$ 11,083	\$ 221,662
Administrative fees	6,192	3,229	9,421	1,108	554	11,083
Board of examiner selection, training, per diem and marketing costs	14,560	5,053	19,613	2,307	1,154	23,074
Conferences and workshops	27,475	495	27,970	3,291	1,645	32,906
Marketing	5,412	1,711	7,123	838	419	8,380
Office maintenance	4,278	3,188	7,466	878	439	8,783
Office supplies	3,259	1,323	4,582	539	269	5,390
Other	8,469	2,006	10,475	758	1,091	12,324
Postage	4,164	598	4,762	560	280	5,602
Printing	12,440	6,497	18,937	2,228	1,114	22,279
Professional services	3,085	375	3,460	407	203	4,070
Recognition and banquet expenses	28,623	902	29,525	3,474	1,736	34,735
Rent	8,500	-	8,500	1,000	500	10,000
Telephone	2,255	770	3,025	356	178	3,559
Travel	7,132	3,561	10,693	1,258	629	12,580
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION</b>	<b>256,325</b>	<b>97,640</b>	<b>353,965</b>	<b>41,168</b>	<b>21,294</b>	<b>416,427</b>
Depreciation of furniture and equipment	2,218	-	2,218	-	-	2,218
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 258,543</b>	<b>\$ 97,640</b>	<b>\$ 356,183</b>	<b>\$ 41,168</b>	<b>\$ 21,294</b>	<b>\$ 418,645</b>

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, 2006**

	2006			
	Program Services	Supporting Services		
	Quality Award Program	Management & General	Fundraising	Total
Salaries and related benefits	\$ 159,348	\$ 18,747	\$ 9,373	\$ 187,468
Administrative fees	7,968	937	469	9,374
Board of examiner selection, training, per diem and marketing costs	21,380	-	-	21,380
Conferences and workshops	18,223	-	-	18,223
Marketing	3,702	436	218	4,356
Office maintenance	5,260	619	309	6,188
Office supplies	6,022	708	354	7,084
Other	7,666	-	-	7,666
Postage	4,079	-	-	4,079
Printing	14,122	-	-	14,122
Professional services	-	3,875	-	3,875
Recognition and banquet expenses	36,488	-	-	36,488
Rent	8,884	1,045	522	10,451
Telephone	2,956	348	174	3,478
Travel	10,826	-	-	10,826
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION</b>	<b>306,924</b>	<b>26,715</b>	<b>11,419</b>	<b>345,058</b>
Depreciation of furniture and equipment	2,463	-	-	2,463
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 309,387</b>	<b>\$ 26,715</b>	<b>\$ 11,419</b>	<b>\$ 347,521</b>

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, 2007 AND 2006**

**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 of accounts 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, 2007, 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, 2007 AND 2006**

**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.

**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 will help communities become more attractive to new business, building stronger communities with more diverse economies and greater job opportunities.

**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, 2007 AND 2006**

**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 2007 and 2006 follows:

	(Unaudited)	
	2007	2006
Number of business and industry professional volunteers	170	116
Volunteer hours donated	12,224	8,993
Number of organizations served	34	29

**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. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following at December 31:

	2007	2006
Checking account		
First Tennessee Bank	\$ 34,539	\$ 89,760
WCMA Money Fund		
Merrill Lynch	200,000	-
	<u>\$ 234,539</u>	<u>\$ 89,760</u>

**TENNESSEE QUALITY AWARD, INC. D/B/A  
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007 AND 2006**

**3. PROPERTY AND EQUIPMENT**

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

	<u>2007</u>	<u>2006</u>
Computer and related equipment	\$ 26,728	\$ 24,808
Less accumulated depreciation	<u>(23,535)</u>	<u>(21,317)</u>
	<u>\$ 3,193</u>	<u>\$ 3,491</u>

**4. UNEARNED REVENUE**

Unearned revenue consists of funds from the Three Star Grant, which were not spent at December 31, 2007.

**5. IN-KIND CONTRIBUTIONS**

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

	<u>2007</u>	<u>2006</u>
Rent	\$ 10,000	\$ 10,000
Meals in connection with examiner training	4,751	3,290
Graphic design	<u>1,500</u>	<u>1,500</u>
	<u>\$ 16,251</u>	<u>\$ 14,790</u>

**6. CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist of the following as of December 31:

	<u>2007</u>	<u>2006</u>
Temporarily restricted:		
Less than one year	\$ 20,500	\$ 37,500
One to five years	<u>30,500</u>	<u>35,000</u>
	51,000	72,500
Less discounts to net present value	<u>(5,200)</u>	<u>(1,750)</u>
Net contributions receivable	<u>\$ 45,800</u>	<u>\$ 70,750</u>