

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2010 AND 2009

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

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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 statements of financial position of Tennessee Quality Award, Inc. d/b/a Tennessee Center for Performance Excellence as of December 31, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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, 2010 and 2009, 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 9, 2011

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009**

ASSETS

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 214,336	\$ 115,952
Investments	303,698	200,002
Grant receivable	7,429	7,905
Accounts receivable	74,928	25,299
Contributions receivable	7,125	13,875
Office equipment, net of accumulated depreciation	<u>2,014</u>	<u>640</u>
TOTAL ASSETS	<u><u>\$ 609,530</u></u>	<u><u>\$ 363,673</u></u>

LIABILITIES AND NET ASSETS

<u>Liabilities</u>		
Accounts payable	\$ 59,819	\$ 76,482
Unearned revenue	<u>175,000</u>	<u>-</u>
Total Liabilities	<u>234,819</u>	<u>76,482</u>
<u>Net Assets</u>		
Unrestricted	367,586	273,316
Temporarily restricted	<u>7,125</u>	<u>13,875</u>
Total Net Assets	<u>374,711</u>	<u>287,191</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 609,530</u></u>	<u><u>\$ 363,673</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, 2010 AND 2009**

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Support and Revenue</u>						
Public Support:						
Contributions and memberships	\$ 218,950	\$ -	\$ 218,950	\$ 180,740	\$ -	\$ 180,740
Application and site visit fees	61,883	-	61,883	76,269	-	76,269
Three Star Grant	100,000	-	100,000	180,509	-	180,509
Department of Labor and Workforce Development Grant	96,045	-	96,045	96,431	-	96,431
Department of Economic and Community Development						
Leadership Grant	4,000	-	4,000	-	-	-
NIST Baldrige Training Grant	45,000	-	45,000	-	-	-
Special events - banquet	29,295	-	29,295	8,753	-	8,753
Conference and workshops	143,062	-	143,062	79,926	-	79,926
Interest	3,694	-	3,694	4,981	-	4,981
Other	8,106	-	8,106	4,001	-	4,001
Net assets released in satisfaction of time restrictions	6,750	(6,750)	-	13,975	(13,975)	-
TOTAL REVENUES	716,785	(6,750)	710,035	645,585	(13,975)	631,610
<u>Expenses</u>						
Program services:						
Quality Award Program	264,854	-	264,854	241,212	-	241,212
Three Star Grant	175,102	-	175,102	183,256	-	183,256
Department of Labor and Workforce Development Grant	96,045	-	96,045	96,431	-	96,431
Supporting services:						
Management and General	57,676	-	57,676	65,162	-	65,162
Fundraising	28,838	-	28,838	29,555	-	29,555
TOTAL EXPENSES	622,515	-	622,515	615,616	-	615,616
CHANGE IN NET ASSETS	94,270	(6,750)	87,520	29,969	(13,975)	15,994
NET ASSETS - BEGINNING OF YEAR	273,316	13,875	287,191	243,347	27,850	271,197
NET ASSETS - END OF YEAR	<u>\$ 367,586</u>	<u>\$ 7,125</u>	<u>\$ 374,711</u>	<u>\$ 273,316</u>	<u>\$ 13,875</u>	<u>\$ 287,191</u>

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**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets:	\$ 87,520	\$ 15,994
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,224	640
(Increase) Decrease in operating assets:		
Grant receivable	476	77
Accounts receivable	(49,629)	(14,777)
Contributions receivable	6,750	13,975
Increase (Decrease) in operating liabilities:		
Accounts payable	(16,663)	37,768
Unearned revenue	<u>175,000</u>	<u>(30,509)</u>
Net cash provided by operating activities	<u>204,678</u>	<u>23,168</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of office equipment	(2,598)	-
Increase in investment securities	<u>(103,696)</u>	<u>(200,002)</u>
Net cash used by investing activities	<u>(106,294)</u>	<u>(200,002)</u>
Net increase (decrease) in cash and cash equivalents	<u>98,384</u>	<u>(176,834)</u>
Cash - beginning of year	<u>115,952</u>	<u>292,786</u>
Cash - end of year	<u><u>\$ 214,336</u></u>	<u><u>\$ 115,952</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, 2010**

	2010						
	Program Services				Supporting Services		
	Quality Award Program	Three Star Grant	Department of Labor and Workforce Development Grant	Total	Management & General	Fundraising	Total
Salaries and related benefits	\$ 119,336	\$ 118,353	\$ 75,136	\$ 312,825	\$ 36,803	\$ 18,401	\$ 368,029
Administrative fees	6,143	5,828	-	11,971	1,408	705	14,084
Board of examiner selection, training, per diem and marketing costs	15,498	5,736	-	21,234	2,498	1,249	24,981
Conferences and workshops	23,287	12,199	-	35,486	4,175	2,087	41,748
Marketing	1,335	729	-	2,064	243	121	2,428
Office maintenance	4,890	3,872	-	8,762	1,031	515	10,308
Office supplies	1,381	774	-	2,155	254	126	2,535
Other	10,189	2,327	-	12,516	1,472	737	14,725
Postage	5,193	2,609	-	7,802	918	459	9,179
Printing	10,773	5,745	-	16,518	1,943	972	19,433
Professional services	2,606	1,422	-	4,028	474	237	4,739
Recognition and banquet expenses	21,691	11,704	-	33,395	3,929	1,964	39,288
Non-personnel grant expenses	-	-	20,909	20,909	-	-	20,909
Leadership grant payments	4,000	-	-	4,000	-	-	4,000
NIST Baldrige training grant expenses	19,617	-	-	19,617	-	-	19,617
Rent	8,500	-	-	8,500	1,000	500	10,000
Telephone	2,014	1,099	-	3,113	366	183	3,662
Travel	7,177	2,705	-	9,882	1,162	582	11,626
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	263,630	175,102	96,045	534,777	57,676	28,838	621,291
Depreciation of furniture and equipment	1,224	-	-	1,224	-	-	1,224
TOTAL FUNCTIONAL EXPENSES	\$ 264,854	\$ 175,102	\$ 96,045	\$ 536,001	\$ 57,676	\$ 28,838	\$ 622,515

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 (CONTINUED)
DECEMBER 31, 2009**

	2009						
	Program Services				Supporting Services		
	Quality Award Program	Three Star Grant	Department of Labor and Workforce Development Grant	Total	Management & General	Fundraising	Total
Salaries and related benefits	\$ 130,404	\$ 129,068	\$ 78,585	\$ 338,057	\$ 45,525	\$ 20,188	\$ 403,770
Administrative fees	7,144	6,453	-	13,597	1,600	800	15,997
Board of examiner selection, training, per diem and marketing costs	14,204	3,893	-	18,097	2,129	1,065	21,291
Conferences and workshops	19,980	10,745	-	30,725	3,614	1,808	36,147
Marketing	1,615	1,279	-	2,894	341	170	3,405
Office maintenance	4,516	2,463	-	6,979	821	411	8,211
Office supplies	2,390	1,359	-	3,749	441	220	4,410
Other	6,907	1,885	-	8,792	1,034	517	10,343
Postage	3,828	2,012	-	5,840	687	344	6,871
Printing	11,949	6,541	-	18,490	2,476	787	21,753
Professional services	2,606	1,422	-	4,028	474	237	4,739
Recognition and banquet expenses	18,869	8,791	-	27,660	3,254	1,627	32,541
Non-personnel grant expenses	-	-	17,846	17,846	-	-	17,846
Rent	8,500	-	-	8,500	1,000	500	10,000
Telephone	2,063	1,125	-	3,188	375	187	3,750
Travel	5,597	6,220	-	11,817	1,391	694	13,902
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	240,572	183,256	96,431	520,259	65,162	29,555	614,976
Depreciation of furniture and equipment	640	-	-	640	-	-	640
TOTAL FUNCTIONAL EXPENSES	\$ 241,212	\$ 183,256	\$ 96,431	\$ 520,899	\$ 65,162	\$ 29,555	\$ 615,616

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, 2010 AND 2009**

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.

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.

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, 2010, 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, 2010 AND 2009**

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 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.

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, 2010 AND 2009**

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 2010 and 2009 follows:

	(Unaudited)	
	2010	2009
Number of business and industry professional volunteers	158	154
Volunteer hours donated	10,214	6,116
Number of organizations served	27	26

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.

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, 2010, 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, 2010 AND 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

Cash and Cash Equivalents

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, payables, and unearned revenue: 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, 2010 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	\$ 303,698	\$ 303,698	\$ -	\$ -

Fair Value Measurements at December 31, 2009 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	\$ 200,002	\$ 200,002	\$ -	\$ -

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, 2010 and 2009, 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, 2010 AND 2009**

3. OFFICE EQUIPMENT

Office equipment consists of the following as of December 31:

	<u>2010</u>	<u>2009</u>
Computers and related equipment	\$ 29,326	\$ 26,728
Less accumulated depreciation	<u>(27,312)</u>	<u>(26,088)</u>
	<u><u>\$ 2,014</u></u>	<u><u>\$ 640</u></u>

4. UNEARNED REVENUE

Unearned revenue consists of unexpended grant funds at December 31 of each year.

5. IN-KIND CONTRIBUTIONS

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

	<u>2010</u>	<u>2009</u>
Rent	\$ 10,000	\$ 10,000
Graphic design	<u>-</u>	<u>115</u>
	<u><u>\$ 10,000</u></u>	<u><u>\$ 10,115</u></u>

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following as of December 31:

	<u>2010</u>	<u>2009</u>
Temporarily restricted:		
Less than one year	\$ 7,500	\$ 15,000
Less discounts to net present value	<u>(375)</u>	<u>(1,125)</u>
Net contributions receivable	<u><u>\$ 7,125</u></u>	<u><u>\$ 13,875</u></u>

7. SUBSEQUENT EVENTS

TNCPE reviewed its activities through June 9, 2011, which is the date the financial statements were available to be issued, for the purpose of disclosing events occurring subsequent to December 31, 2010. Their review disclosed that they have signed grant contracts with the State of Tennessee Department of Labor and Workforce Development and will continue to receive grant funds during the year ended December 31, 2011.