

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2011 AND 2010

**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 statements of financial position of Tennessee Quality Award, Inc. d/b/a Tennessee Center for Performance Excellence as of December 31, 2011 and 2010, 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, 2011 and 2010, 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, PLLC

July 2, 2012

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010**

ASSETS

	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 115,223	\$ 214,336
Investments	238,962	303,698
Grant receivable	5,720	7,429
Accounts receivable	96,940	74,928
Contributions receivable	-	7,125
Office equipment, net of accumulated depreciation	<u>1,148</u>	<u>2,014</u>
TOTAL ASSETS	<u><u>\$ 457,993</u></u>	<u><u>\$ 609,530</u></u>

LIABILITIES AND NET ASSETS

<u>Liabilities</u>		
Accounts payable	\$ 69,778	\$ 59,819
Unearned revenue	<u>-</u>	<u>175,000</u>
Total Liabilities	<u>69,778</u>	<u>234,819</u>
<u>Net Assets</u>		
Unrestricted	388,215	367,586
Temporarily restricted	<u>-</u>	<u>7,125</u>
Total Net Assets	<u>388,215</u>	<u>374,711</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 457,993</u></u>	<u><u>\$ 609,530</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, 2011 AND 2010**

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Support and Revenue</u>						
Public Support:						
Contributions and memberships	\$ 243,325	\$ -	\$ 243,325	\$ 218,950	\$ -	\$ 218,950
Application and site visit fees	107,166	-	107,166	61,883	-	61,883
Three Star Grant	-	-	-	100,000	-	100,000
Department of Labor and Workforce Development Grant	96,804	-	96,804	96,045	-	96,045
Department of Economic and Community Development						
Leadership Grant	74,687	-	74,687	4,000	-	4,000
NIST Baldrige Training Grant	7,172	-	7,172	45,000	-	45,000
Special events - banquet	14,870	-	14,870	29,295	-	29,295
Conference and workshops	156,801	-	156,801	143,062	-	143,062
Interest	2,460	-	2,460	3,694	-	3,694
Other	5,277	-	5,277	8,106	-	8,106
Net assets released in satisfaction of time restrictions	7,125	(7,125)	-	6,750	(6,750)	-
TOTAL REVENUES	715,687	(7,125)	708,562	716,785	(6,750)	710,035
<u>Expenses</u>						
Program services:						
Quality Award Program	403,211	-	403,211	264,854	-	264,854
Three Star Grant	105,741	-	105,741	175,102	-	175,102
Department of Labor and Workforce Development Grant	96,804	-	96,804	96,045	-	96,045
Supporting services:						
Management and General	59,536	-	59,536	57,676	-	57,676
Fundraising	29,766	-	29,766	28,838	-	28,838
TOTAL EXPENSES	695,058	-	695,058	622,515	-	622,515
CHANGE IN NET ASSETS	20,629	(7,125)	13,504	94,270	(6,750)	87,520
NET ASSETS - BEGINNING OF YEAR	367,586	7,125	374,711	273,316	13,875	287,191
NET ASSETS - END OF YEAR	\$ 388,215	\$ -	\$ 388,215	\$ 367,586	\$ 7,125	\$ 374,711

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, 2011**

2011

	Program Services			Supporting Services		
	Department of Labor and Workforce					
	Quality Award Program	Three Star Grant	Development Grant	Management & General	Fundraising	Total
		Total				
Salaries and related benefits	\$ 169,682	\$ 55,124	\$ 74,651	\$ 35,230	\$ 17,615	\$ 352,302
Administrative fees	8,147	2,674	-	1,273	637	12,731
Board of examiner selection, training, per diem and marketing costs	19,922	1,926	-	2,570	1,285	25,703
Conferences and workshops	32,498	15,050	-	5,594	2,797	55,939
Marketing	1,023	268	-	152	76	1,519
Office maintenance	4,010	2,776	-	798	399	7,983
Office supplies	1,932	589	-	297	148	2,966
Other	11,775	486	-	1,443	721	14,425
Postage	8,244	2,434	-	1,256	628	12,562
Printing	13,193	6,847	-	2,358	1,178	23,576
Professional services	7,546	1,395	-	1,052	526	10,519
Recognition and banquet expenses	27,138	14,035	-	4,844	2,422	48,439
Non-personnel grant expenses	-	-	22,153	-	-	22,153
Leadership grant payments	74,687	-	-	-	-	74,687
NIST Baldridge training grant expenses	2,000	-	-	-	-	2,000
Rent	8,500	-	-	1,000	500	10,000
Telephone	3,085	555	-	428	214	4,282
Travel	8,963	1,582	-	1,241	620	12,406
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	402,345	105,741	96,804	59,536	29,766	694,192
Depreciation of furniture and equipment	866	-	-	-	-	866
TOTAL FUNCTIONAL EXPENSES	\$ 403,211	\$ 105,741	\$ 96,804	\$ 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 FUNCTIONAL EXPENSES
DECEMBER 31, 2010**

2010

	Program Services			Supporting Services		
	Department of Labor and Workforce					
	Quality Award Program	Three Star Grant	Development Grant	Management & General	Fundraising	Total
Salaries and related benefits	\$ 119,336	\$ 118,353	\$ 75,136	\$ 36,803	\$ 18,401	\$ 368,029
Administrative fees	6,143	5,828	-	1,408	705	14,084
Board of examiner selection, training, per diem and marketing costs	15,498	5,736	-	2,498	1,249	24,981
Conferences and workshops	23,287	12,199	-	4,175	2,087	41,748
Marketing	1,335	729	-	243	121	2,428
Office maintenance	4,890	3,872	-	1,031	515	10,308
Office supplies	1,381	774	-	254	126	2,535
Other	10,189	2,327	-	1,472	737	14,725
Postage	5,193	2,609	-	918	459	9,179
Printing	10,773	5,745	-	1,943	972	19,433
Professional services	2,606	1,422	-	474	237	4,739
Recognition and banquet expenses	21,691	11,704	-	3,929	1,964	39,288
Non-personnel grant expenses	-	-	20,909	-	-	20,909
Leadership grant payments	4,000	-	-	-	-	4,000
NIST Baldrige training grant expenses	19,617	-	-	-	-	19,617
Rent	8,500	-	-	1,000	500	10,000
Telephone	2,014	1,099	-	366	183	3,662
Travel	7,177	2,705	-	1,162	582	11,626
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	263,630	175,102	96,045	57,676	28,838	621,291
Depreciation of furniture and equipment	1,224	-	-	-	-	1,224
TOTAL FUNCTIONAL EXPENSES	\$ 264,854	\$ 175,102	\$ 96,045	\$ 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 CASH FLOWS
DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets:	\$ 13,504	\$ 87,520
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	866	1,224
(Increase) Decrease in operating assets:		
Grant receivable	1,709	476
Accounts receivable	(22,012)	(49,629)
Contributions receivable	7,125	6,750
Increase (Decrease) in operating liabilities:		
Accounts payable	9,959	(16,663)
Unearned revenue	<u>(175,000)</u>	<u>175,000</u>
Net cash provided (used) by operating activities	<u>(163,849)</u>	<u>204,678</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of office equipment	-	(2,598)
(Increase) Decrease in investment securities	<u>64,736</u>	<u>(103,696)</u>
Net cash provided (used) by investing activities	<u>64,736</u>	<u>(106,294)</u>
Net increase (decrease) in cash and cash equivalents	(99,113)	98,384
Cash - beginning of year	<u>214,336</u>	<u>115,952</u>
Cash - end of year	<u><u>\$ 115,223</u></u>	<u><u>\$ 214,336</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, 2011 AND 2010**

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. As of December 31, 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, 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, 2011 AND 2010**

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 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, 2011 AND 2010**

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 2011 and 2010 follows:

	(Unaudited)	
	2011	2010
Number of business and industry professional volunteers	175	158
Volunteer hours donated	15,574	10,214
Number of organizations served	35	27

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, 2011, 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.

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, 2011 AND 2010**

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, 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	<u>\$ 238,962</u>	<u>\$ 238,962</u>	<u>\$ -</u>	<u>\$ -</u>

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	<u>\$ 303,698</u>	<u>\$ 303,698</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2011 and 2010, 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, 2011 AND 2010**

3. OFFICE EQUIPMENT

Office equipment consists of the following as of December 31:

	<u>2011</u>	<u>2010</u>
Computers and related equipment	\$ 29,326	\$ 29,326
Less accumulated depreciation	<u>(28,178)</u>	<u>(27,312)</u>
	<u>\$ 1,148</u>	<u>\$ 2,014</u>

4. UNEARNED REVENUE

Unearned revenue consists of unexpended grant funds at December 31, 2010.

5. IN-KIND CONTRIBUTIONS

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

	<u>2011</u>	<u>2010</u>
Rent	<u>\$ 10,000</u>	<u>\$ 10,000</u>

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following as of December 31:

	<u>2011</u>	<u>2010</u>
Temporarily restricted:		
Less than one year	\$ -	\$ 7,500
Less discounts to net present value	<u>-</u>	<u>(375)</u>
Net contributions receivable	<u>\$ -</u>	<u>\$ 7,125</u>

7. 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.

**TENNESSEE QUALITY AWARD, INC. D/B/A
TENNESSEE CENTER FOR PERFORMANCE EXCELLENCE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010**

8. 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.

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 2, 2012 which is the date the financial statements were available to be issued.