

**The Foundation for the Malcolm Baldrige
National Quality Award, Inc.**

**FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION
Year Ended September 30, 2006**

**AND
INDEPENDENT AUDITOR'S REPORT**

The Foundation for the Malcolm Baldrige
National Quality Award, Inc.

FINANCIAL STATEMENTS

September 30, 2006

TABLE OF CONTENTS

Board of Directors

Exhibit

Page

Independent Auditor's Report

1

Financial Statements

A Statements of Financial Position

2

B Statements of Activities and Changes in Net Assets

3-4

C Statements of Cash Flows

5

Notes to Financial Statements

6-9

Schedule

Independent Auditor's Report on Additional Information

10

Additional Information

1 Schedules of Administrative Expenses

11

2 Schedule of Assets Held for Investment Purposes

12

The Foundation for the Malcolm Baldrige
National Quality Award, Inc.

September 30, 2006

BOARD OF DIRECTORS

Dale Crownover, Chairman

Debbie Collard, Secretary

David Spong, Vice-Chairman

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**ALLISON KNAPP &
SIEKMANN, LTD.**

CERTIFIED PUBLIC ACCOUNTANTS

February 16, 2007

Board of Trustees
The Foundation for the Malcolm Baldrige
National Quality Award, Inc.

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of financial position of The Foundation for the Malcolm Baldrige National Quality Award, Inc. as of September 30, 2006, and the related statement of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards. 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 The Foundation for the Malcolm Baldrige National Quality Award, Inc. as of September 30, 2006, and the results of its activities and cash flows for the year then ended in conformity with U. S. generally accepted accounting principles.

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EXHIBIT A

The Foundation for the Malcolm Baldrige
National Quality Award, Inc.

STATEMENTS OF FINANCIAL POSITION

Years Ended September 30, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,239,110	\$ 607,677
Accounts receivable		
Quest conference	\$ 304,666	\$ 397,958
Regional conferences	50,785	214,114
Contributions receivable - current portion	97,500	181,500
Investments		
Money market accounts	1,483,250	1,027,984
Corporate and U. S. debt securities	6,824,929	5,892,441
Equity securities	13,555,163	13,698,576
OTHER ASSETS		
Contributions receivable - net of current portion	237,500	242,500
TOTAL ASSETS	\$ 23,792,903	\$ 22,262,750
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued expenses		
Public and business affairs within NIST	\$ 1,568,771	\$ 760,173
Accounts payable	222,244	134,741
Total liabilities	\$ 1,791,015	\$ 894,914
NET ASSETS		
Unrestricted	22,001,888	21,367,836
TOTAL LIABILITIES AND NET ASSETS	\$ 23,792,903	\$ 22,262,750

The accompanying notes are an integral part of these financial statements.

The Foundation for the Malcolm Baldrige
National Quality Award, Inc.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended September 30, 2006 and 2005

	2006	2005
REVENUES, GAINS AND OTHER SUPPORT		
Investment income		
Interest on money market accounts	\$ 75,317	\$ 48,802
Dividends and interest on investments	769,229	519,764
Gains		
Realized	2,581,293	574,789
Unrealized	-	1,433,009
Total investment income	3,425,839	2,576,364
Less investment expenses	(67,288)	(48,563)
Net investment income	\$ 3,358,551	\$ 2,527,801
Contributions	31,000	450,000
Conference fees and charges		
Retail sales/award process fees	600,267	538,556
Quest for Excellence conference	304,666	397,958
Regional conferences and other	212,710	254,907
Total revenue, gains and other support	4,507,194	4,169,222
EXPENSES AND LOSSES		
Program services		
Award expenses		
State alliance funding	200,000	-
Satellite uplink	19,766	-
Management and support	1,126,726	531,401
Typesetting, printing and distribution	483,180	405,512
Processes	559,505	361,816
Regional conferences	157,137	123,763
Total program expenses	2,546,314	1,422,492
General and administrative - Schedule 1	147,526	85,520
Total expenses	2,693,840	1,508,012

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STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
(continued)
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Losses on investments - unrealized	<u>1,152,245</u>	<u>-</u>
Total expenses and losses	<u>3,846,085</u>	<u>1,508,012</u>
Increase in net assets	661,109	2,661,210
Net assets, beginning of year	21,367,836	18,785,329
Prior period adjustment	<u>(27,057)</u>	<u>(78,703)</u>
NET ASSETS, END OF YEAR	<u>\$ 22,001,888</u>	<u>\$ 21,367,836</u>

The accompanying notes are an integral part of these financial statements.

The Foundation for the Malcolm Baldrige
National Quality Award, Inc.

STATEMENTS OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Years Ended September 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net assets	\$ 661,109	\$ 2,661,210
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Net unrealized and realized gain on investments	\$ (1,429,048)	\$ (2,007,798)
(Increase) decrease in current assets		
Accounts receivable	256,621	(95,328)
Contributions receivable	89,000	(189,968)
Increase (decrease) in current liabilities		
Accrued expenses	869,044	(236,133)
Total adjustments	(214,383)	(2,529,227)
Net cash provided by operating activities	446,726	131,983
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	12,746,736	4,898,125
Purchase of investments	(12,562,029)	(4,917,153)
Net cash provided (used) by investing activities	184,707	(19,028)
Net increase in cash and cash equivalents	631,433	112,955
Cash and cash equivalents, beginning of year	607,677	494,722
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,239,110	\$ 607,677

The accompanying notes are an integral part of these financial statements.

The Foundation for the Malcolm Baldrige
National Quality Award, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

Note 1: Summary of Significant Accounting Policies

The financial statements of the Foundation for the Malcolm Baldrige National Quality Award, Inc. (the Foundation) have been prepared on the accrual basis of accounting (see discussion on program expenses below). The Foundation was organized under the laws of Delaware and under Section 501(c)(3) of the United States Internal Revenue Code as a charitable not-for-profit corporation.

Description of Foundation

The Foundation for the Malcolm Baldrige National Quality Award, Inc. was created to provide the private sector a means of accomplishing the following Award objectives: raise sufficient funds to establish an endowment which, when supplemented by fees from Award applicants, would permanently fund the Program; oversee the investment of endowment funds; review Program accomplishments; disburse required funds to the National Institute of Standards and Technology (NIST); and review the plan and approve associated funds requirements for subsequent years to ensure a successful Award program.

The Foundation is intended to function as an endowment fund. The fund is not legally restricted, and the Foundation plans to fund its future operations through earnings derived from its investments and potential additional solicitation.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. As of September 30, 2006, cash and cash equivalents were maintained in bank checking and money market accounts.

Investments

Investments are stated at fair value.

Accounts Receivable

The Foundation has recorded receivables from NIST for proceeds from the 2006 Quest for Winners conference not yet received at September 30, 2006. The monies represent funds collected by NIST on behalf of the Foundation and are paid subsequent to year-end. In addition, the Foundation recorded receivables from 2006 regional conferences for monies received subsequent to year-end.

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NOTES TO FINANCIAL STATEMENTS
(continued)
September 30, 2006

Note 1: Summary of Significant Accounting Policies (continued)

Contributions Receivable

Contributions are recorded as revenue when an unconditional promise to give is received. Contributions receivable are classified as unrestricted, temporarily restricted, or permanently restricted depending upon the presence or absence of donor imposed restrictions. Since all contributions provided to date have been for support of Foundation activities, without time restrictions, all contributions have been recorded as unrestricted. Contributions are recorded at fair value at the date of donation. Contributions receivable are recorded at the present value of their estimated future cash flows.

Program Expenses

The Foundation provides to NIST the funds necessary to support the Quality Award Program, under the requirements of the *Malcolm Baldrige National Quality Improvement Act of 1987*. The Foundation records annual expenses based on the most recent actual data provided by NIST as of September 30, 2006. Subsequent adjustments to this data, based on actual NIST cost incurred, are recorded in the period NIST informs the Foundation. Management does not believe this recording of expenses varies significantly from generally accepted accounting principles.

Use of Estimates

Preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Foundation is exempt from income tax based upon a determination under Section 501(c)(3) of the Internal Revenue Service Code.

Note 2: Investments

Investments are stated at fair value, which is based on quoted market prices on the last day of the year at September 30, 2006. Those investments are limited in use to the support of the Quality Award Program and not to meet the criteria of being classified as restricted under SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*. Investments as of September 30, 2006 and 2005 are composed of the following:

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

(continued)

September 30, 2006

Note 2: Investments (continued)

	<u>2006</u>	<u>2005</u>
State Street Global Advisors		
Money market accounts	\$ 1,483,250	\$ 1,027,984
Corporate and U. S. debt securities	6,824,929	5,892,441
Equity securities	<u>13,555,163</u>	<u>13,698,576</u>
Total investments	<u>\$ 21,863,342</u>	<u>\$ 20,619,001</u>

Investment income for the years ended September 30, 2006 and 2005 consists of:

	<u>2006</u>	<u>2005</u>
State Street Global Advisors		
Dividends and interest on investments	\$ 769,229	\$ 519,764
Interest on money market accounts	75,317	48,802
Net unrealized and realized gain on investments	-	-
Gains and losses		
Realized	2,581,293	574,789
Unrealized	<u>(1,152,245)</u>	<u>1,433,009</u>
Total investment income	2,273,594	2,576,364
Less fund management fees	<u>(67,288)</u>	<u>(48,563)</u>
Total return on investments - net	<u>\$ 2,206,306</u>	<u>\$ 2,527,801</u>

Note 3: Functional Expenses

The Foundation sponsors the Malcolm Baldrige National Award for performance excellence in the business, health care and education communities. Expenses related to providing these services included in the statement of operations and changes in unrestricted net assets are as follows:

	<u>2006</u>	<u>2005</u>
Program expenses	\$ 2,546,314	\$ 1,422,492
General and administrative	<u>147,526</u>	<u>85,520</u>
Total expenses	<u>\$ 2,693,840</u>	<u>\$ 1,508,012</u>

Note 4: Program Expenses

As of September 30, 2006 and 2005, total estimated expenses incurred by NIST and reimbursable by the Foundation, classified as program expenses, were \$1,568,771 and \$760,173, respectively. This amount is net of proceeds of \$600,267 and \$538,556, from the 2006 and 2005 Quest for Excellence Winners Conferences and related fees, respectively.

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NOTES TO FINANCIAL STATEMENTS
(continued)
September 30, 2006

Note 5: Contributions Receivable

Contributions receivable consists of unconditional promises to give. The Foundation is on the direct write-off method of accounting for bad debts. Under this method, all uncollectible accounts are charged to expense during the year in which the account is declared uncollectible by management. The utilization of this method, although not in conformity with generally accepted accounting principles, does not have a material effect on the accompanying financial statements. Bad debt expense totaled \$10,000 and \$3,199 for the years ended September 30, 2006 and 2005, respectively.

Present value of contributions receivable as of September 30, 2006 and 2005 are:

	2006	2005
Less than one year	\$ 97,500	\$ 181,500
One year to five years	237,500	242,500
Total contributions receivable	<u>\$ 335,000</u>	<u>\$ 424,000</u>

Note 6: Concentration of Credit Risk

The Foundation maintains cash balances in an area bank. Accounts at the bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At September 30, 2006 and 2005, cash balances in excess of insured limits totaled \$949,264 and \$508,984, respectively.

Note 7: Commitments

On April 23, 2006, The Foundation signed an agreement with the Alliance for Performance Excellence, Inc. to fund the Alliance \$200,000. Seventy-five (75) percent was due within 30 days of the signed agreement. The remaining twenty-five (25) percent is due on or before the October 1, 2007 expiration of the agreement.

Note 8: Prior Period Adjustment

The financial statements contain a prior period adjustment to account for additional accounts payable in the prior year in the amount of \$27,057.

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CERTIFIED PUBLIC ACCOUNTANTS

February 16, 2007

Board of Trustees
The Foundation for the Malcolm Baldrige
National Quality Award, Inc.

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Our report on our audit of the basic financial statements of The Foundation for the Malcolm Baldrige National Quality Award, Inc. for the fiscal year ended September 30, 2006 appears on page 1. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These supplemental schedules are the responsibility of the Foundation's management. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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SCHEDULE 1

The Foundation for the Malcolm Baldrige
National Quality Award, Inc.

SCHEDULES OF ADMINISTRATIVE EXPENSES

Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Salary	\$ 55,000	\$ -
Taxes	1,913	-
Employee benefits	6,521	-
Trust filing fees	3,949	5,784
Accounting fees	9,518	17,352
Legal fees	9,857	4,500
Other professional fees	15,410	36,083
Temporary help	8,811	14,014
Supplies	4,075	350
Banking fees	611	-
Internet web hosting	1,231	699
Phone and fax	540	-
Postage	1,192	360
Equipment rental	574	-
Printing and supplies	22	196
Travel and meetings	11,727	-
Insurance	2,483	2,483
Bad debt expense	10,000	3,199
Miscellaneous	4,092	500
	<u>\$ 147,526</u>	<u>\$ 85,520</u>

The Foundation for the Malcolm Baldrige
National Quality Award, Inc.

SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES

September 30, 2006

	Shares	Cost	Fair Value	
State Street Global Advisors				
<u>Money Market Account</u>				
SSGA Funds Money Market	1,483,250	\$ 1,483,250	\$	1,483,250
<u>Corporate and U. S. Debt Securities</u>				
Passive Bond Market	376,967	4,730,509	\$ 4,643,475	
SSGA Funds High Yield Bond	221,805	2,213,186	<u>2,181,455</u>	6,824,930
<u>Equity Securities</u>				
SSGA International Growth Opportunities				
Large Value Index Plus	246,072	2,361,176	3,512,676	
Large Cap Growth CTF	316,670	1,945,848	2,623,608	
International Alpha Select CTF	190,566	2,679,936	2,958,533	
International Growth Opportunities	83,950	811,842	1,182,775	
L/S Market Neutral US Equity	34,507	629,139	658,088	
REIT Index CTF	23,284	341,017	653,175	
Small Cap Index Plus	123,481	1,994,103	1,966,307	13,555,162
		<u>\$ 19,190,006</u>		<u>\$ 21,863,342</u>

