

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

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION  
Years Ended September 30, 2008 and 2007

AND  
INDEPENDENT AUDITOR'S REPORT

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

FINANCIAL STATEMENTS

September 30, 2008 and 2007

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Board of Directors

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

September 30, 2008

BOARD OF DIRECTORS

David Spong, Chairman

Debbie Collard, Secretary

Joe Alexander, Chair-Elect

Letitia Baldrige

George Benson

Anne Bryant

Richard Hastings

Loren Meyer

Ryan Magnon

Horst Schulze

Thom Schamberger, Executive Director

January 30, 2009

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

#### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of The Foundation for the Malcolm Baldrige National Quality Award, Inc. (a nonprofit organization) as of September 30, 2008 and 2007, and the related statements of activities and changes in unrestricted net assets and cash flows for the years 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 audits.

We conducted our audits 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 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 The Foundation for the Malcolm Baldrige National Quality Award, Inc. as of September 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U. S. generally accepted accounting principles.

*Allison Knapp + Siehmann, P.C.*

EXHIBIT A

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

STATEMENTS OF FINANCIAL POSITION

Years Ended September 30, 2008 and 2007

	2008	2007
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 861,153	\$ 921,623
Accounts receivable		
Quest for Excellence conference	\$ 111,758	\$ 142,411
Regional conferences	46,150	51,400
Contributions receivable -		
current portion	45,000	45,000
Allowance for doubtful accounts	(15,000)	(15,000)
Investments		
Money market accounts	704,048	1,637,509
Corporate and U. S. debt securities	7,354,823	7,765,515
Equity securities	11,451,442	14,022,122
Deposit	-	8,500
<b>Total current assets</b>	<b>20,559,374</b>	<b>24,579,080</b>
<b>OTHER ASSETS</b>		
Contributions receivable - net of		
current portion	35,000	102,500
Allowance for doubtful accounts	(5,000)	(5,000)
<b>Total other assets</b>	<b>30,000</b>	<b>97,500</b>
<b>TOTAL ASSETS</b>	<b>\$ 20,589,374</b>	<b>\$ 24,676,580</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accrued expenses		
Public and business affairs		
within NIST	\$ 1,335,355	\$ 1,088,524
Accounts payable	141,899	139,801
<b>Total current liabilities</b>	<b>\$ 1,477,254</b>	<b>\$ 1,228,325</b>
<b>NET ASSETS</b>		
Unrestricted	19,112,120	23,448,255
<b>TOTAL LIABILITIES AND</b>		
<b>NET ASSETS</b>	<b>\$ 20,589,374</b>	<b>\$ 24,676,580</b>

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 UNRESTRICTED NET ASSETS

Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>		
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT				
Investment income				
Interest on money market accounts	\$ 61,513		\$ 96,984	
Dividends and interest on investments	662,702		702,474	
Gains				
Realized	487,620		831,644	
Unrealized	<u>-</u>		<u>958,227</u>	
Total investment income	1,211,835		2,589,329	
Less investment expenses	<u>(53,932)</u>		<u>(68,757)</u>	
Net investment income	\$ 1,157,903		\$ 2,520,572	
Contributions	-		-	
Conference fees and charges				
Individual pledges	-		150	
Retail sales/award process fees	840,575		799,157	
Quest for Excellence conference	111,758		142,411	
Regional conferences and other	<u>184,435</u>	<u>1,136,768</u>	<u>169,170</u>	<u>1,110,888</u>
Total unrestricted revenues, gains and other support	<u>2,294,671</u>		<u>3,631,460</u>	
EXPENSES AND LOSSES				
Program services				
Award expenses				
State Alliance funding	50,000		-	
Satellite uplink	9,844		14,620	
Management and support	1,148,747		867,031	
Typesetting, printing and distribution	497,467		446,044	
Processes	<u>529,719</u>	<u>2,235,777</u>	<u>574,606</u>	1,902,301
Regional conferences		<u>97,244</u>		<u>124,234</u>
Total program services		2,333,021		2,026,535

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STATEMENTS OF ACTIVITIES AND CHANGES  
IN UNRESTRICTED NET ASSETS  
(continued)  
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
EXPENSES AND LOSSES (continued)		
Supporting services		
General and administrative - Schedule 1	<u>191,582</u>	<u>208,558</u>
Total expenses	2,524,603	2,235,093
Losses on investments - unrealized	<u>4,106,203</u>	<u>-</u>
Total expenses and losses	<u>6,630,806</u>	<u>2,235,093</u>
Increase (decrease) in unrestricted net assets	(4,336,135)	1,396,367
Net assets, beginning of year	23,448,255	22,001,888
Prior period adjustment	<u>-</u>	<u>50,000</u>
NET ASSETS, END OF YEAR	<u>\$ 19,112,120</u>	<u>\$ 23,448,255</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, 2008 and 2007

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase/decrease in unrestricted net assets	\$ (4,336,135)	\$ 1,396,367
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Net unrealized and realized (gain) loss on investments	\$ 3,618,583	\$ (1,789,871)
Allowance for doubtful accounts	-	20,000
(Increase) decrease in operating assets		
Accounts receivable	35,903	161,640
Contributions receivable	67,500	187,500
Deposit	8,500	(8,500)
Increase (decrease) in operating liabilities		
Accrued expenses	246,831	(480,247)
Accounts payable	2,098	(32,443)
	<u>3,979,415</u>	<u>(1,941,921)</u>
Total adjustments		
Net cash (used) by operating activities	(356,720)	(545,554)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	10,080,246	4,503,000
Purchase of investments	(9,783,996)	(4,274,933)
	<u>296,250</u>	<u>228,067</u>
Net cash provided by investing activities		
Net (decrease) in cash and cash equivalents	(60,470)	(317,487)
Cash and cash equivalents, beginning of year	<u>921,623</u>	<u>1,239,110</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 861,153</u>	<u>\$ 921,623</u>

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, 2008

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 nonprofit 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, 2008, 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 2008 Quest for Excellence conference not yet received at September 30, 2008. 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 2008 regional conferences for monies received subsequent to year-end.

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NOTES TO FINANCIAL STATEMENTS  
(continued)  
September 30, 2008

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 sponsors the Malcolm Baldrige National Quality Award for performance excellence in the business, health care, education and nonprofit communities.

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, 2008. 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 at September 30, 2008. Those investments are limited in use to the support of the Quality Award Program and are not restricted as defined in SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*. Investments as of September 30, 2008 and 2007 are composed of the following:

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NOTES TO FINANCIAL STATEMENTS  
(continued)  
September 30, 2008

Note 2: Investments (continued)

	<u>2008</u>	<u>2007</u>
State Street Global Advisors		
Money market accounts	\$ 704,048	\$ 1,637,509
Corporate and U. S. debt securities	7,354,823	7,765,515
Equity securities	<u>11,451,442</u>	<u>14,022,122</u>
Total investments	<u>\$ 19,510,313</u>	<u>\$ 23,425,146</u>

Investment income for the years ended September 30, 2008 and 2007 consists of:

	<u>2008</u>	<u>2007</u>
Dividends and interest on investments	\$ 662,702	\$ 702,474
Interest on money market accounts	61,513	96,984
Gains and (losses)		
Realized	487,620	831,644
Unrealized	<u>(4,106,203)</u>	<u>958,227</u>
Total investment income	(2,894,368)	2,589,329
Less fund management fees	<u>(53,932)</u>	<u>(68,757)</u>
Net investment income (loss)	<u>\$ (2,948,300)</u>	<u>\$ 2,520,572</u>

The above is presented per Exhibit B.

	<u>2008</u>	<u>2007</u>
Net investment income per above	\$ 1,157,903	\$ 2,520,572
Losses on investment - unrealized per Exhibit B	<u>(4,106,203)</u>	<u>-</u>
Total investment income (loss)	<u>\$ (2,948,300)</u>	<u>\$ 2,520,572</u>

Note 3: Program Expenses

As of September 30, 2008 and 2007, total estimated expenses incurred by NIST were \$2,175,930 and \$1,887,681, respectively. Total proceeds were \$840,575 and \$799,157 from the 2008 and 2007 Quest for Excellence conferences. The net amount of \$1,335,355 and \$1,088,524, respectively, are reimbursable by the Foundation and are classified as program expenses.

Note 4: Contributions Receivable

Contributions receivable consists of unconditional promises to give. The Foundation recognized an allowance for doubtful accounts based on all accounts past due over one year. Under this method, all

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NOTES TO FINANCIAL STATEMENTS  
(continued)  
September 30, 2008

Note 4: Contributions Receivable (continued)

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 \$-0- and \$70,000 for the years ended September 30, 2008 and 2007, respectively.

Present value of contributions receivable as of September 30, 2008 and 2007 are:

	<u>2008</u>	<u>2007</u>
Less than one year	\$ 45,000	\$ 45,000
One year to five years	<u>35,000</u>	<u>102,500</u>
	80,000	147,500
Less allowance for doubtful accounts	<u>(20,000)</u>	<u>(20,000)</u>
Total contributions receivable	<u><u>\$ 60,000</u></u>	<u><u>\$ 127,500</u></u>

Note 5: 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, 2008 and 2007, cash balances in excess of insured limits totaled \$661,153 and \$733,214, respectively.

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January 30, 2009

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

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Our report on our audits of the basic financial statements of The Foundation for the Malcolm Baldrige National Quality Award, Inc. for the fiscal years ended September 30, 2008 and 2007 appears on page 1. Our audits were 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 audits 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.

*Allison Knapp + Siehman, LLP.*

SCHEDULE 1

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

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Salary	\$ 62,000	\$ 60,000
Taxes	4,743	4,590
Employee benefits	7,340	7,560
State registration fees	7,975	15,073
Accounting fees	9,400	9,020
Other professional fees	775	902
Printing and supplies	-	640
Banking fees	3,704	2,885
Internet web hosting	37,333	2,038
Phone and fax	-	1,425
Postage	-	41
Equipment rental	112	-
Board member business expense	13,732	11,819
Travel and meetings	36,968	17,266
Insurance	2,790	2,483
Bad debt expense	-	70,000
Miscellaneous	4,710	2,816
	<u>\$ 191,582</u>	<u>\$ 208,558</u>

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

SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES

September 30, 2008

	Shares	Cost	Fair Value	
<b>State Street Global Advisors</b>				
<u>Money Market Account</u>				
SSGA Funds Money Market	704,048	\$ 704,048	\$	704,048
<u>Corporate and U. S. Debt Securities</u>				
Passive Bond Market	526,152	5,261,518	\$ 5,237,846	
SSGA Funds High Yield Bond	261,065	2,530,756	2,116,978	7,354,824
<u>Equity Securities</u>				
Act US Large Cap Growth	355,346	2,508,176	2,664,385	
Large Value Index Plus	265,655	2,932,397	3,074,685	
International Alpha Select CTF	149,644	2,202,238	1,970,817	
International Growth Opportunities	55,136	600,645	648,624	
L/S Market Neutral US Equity	40,195	759,678	867,084	
REIT Index CTF	26,264	585,078	621,570	
Small Cap Index Plus	118,703	1,900,419	1,604,276	11,451,441
		\$ 19,984,953	\$	19,510,313