
NATIONAL PUBLIC RADIO, INC.

FINANCIAL STATEMENTS

for the years ended September 30, 2006 and 2005

AND

REPORT THEREON

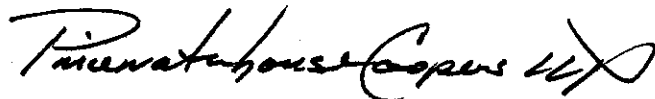
Report of Independent Auditors

To the Board of Directors
National Public Radio, Inc.:

We have audited the accompanying statement of financial position of National Public Radio, Inc. (NPR) as of September 30, 2006 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of NPR's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The prior year summarized 2005 comparative information has been derived from NPR's September 30, 2005 financial statements, and in our report dated November 23, 2005, we expressed an opinion on those financial statements that was qualified for the reason of not consolidating the financial statements of a related entity as required under generally accepted accounting principles.

Accounting principles generally accepted in the United States of America require that not-for-profit organizations present consolidated financial statements when criteria set forth in the American Institute of Certified Public Accountants' Statement of Position 94-3, "Reporting of Related Entities by Not-for-Profit Organizations," are met. As more fully explained in Note 1 to the financial statements, the accompanying financial statements do not include the financial statements of a related entity which meets the aforementioned criteria.

In our opinion, except for the effect of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of NPR as of September 30, 2006 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



December 14, 2006

NATIONAL PUBLIC RADIO, INC.
 Statements of Financial Position
 As of September 30, 2006 (with comparative totals for 2005)

	2006				2005
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 3,981,019	\$ -	\$ -	\$ 3,981,019	\$ 8,911,985
Investments	27,668,139	-	1,000,968	28,669,107	25,250,784
Receivables, net	12,531,577	-	-	12,531,577	11,766,613
Prepaid and other assets	4,100,407	-	-	4,100,407	3,913,559
Interfund (payable)/receivable	(2,192,881)	2,192,881	-	-	-
Total Current Assets	46,088,261	2,192,881	1,000,968	49,282,110	49,842,941
PROPERTY AND EQUIPMENT, NET	50,209,738	-	-	50,209,738	46,677,864
OTHER ASSETS:					
Long-term investments	65,735,203	-	-	65,735,203	59,582,283
Long-term receivables, net	-	8,258,102	-	8,258,102	9,080,224
Long-term prepaid and other assets	938,791	-	-	938,791	-
Deferred financing costs	738,914	-	-	738,914	776,392
Total Other Assets	67,412,908	8,258,102	-	75,671,010	69,438,899
TOTAL ASSETS	\$ 163,710,907	\$ 10,450,983	\$ 1,000,968	\$ 175,162,858	\$ 165,959,704
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	\$ 4,540,870	\$ -	\$ -	\$ 4,540,870	\$ 4,112,007
Current portion of long-term debt	1,300,000	-	-	1,300,000	1,200,000
Accrued expenses	14,280,134	-	-	14,280,134	11,542,879
Accrued interest payable	196,434	-	-	196,434	164,803
Deferred revenues	5,142,051	-	-	5,142,051	4,910,392
Total Current Liabilities	25,459,489	-	-	25,459,489	21,930,081
NON-CURRENT LIABILITIES:					
Other accrued expenses, long-term	3,528,946	-	-	3,528,946	3,473,404
Notes payable, long-term	2,880,000	-	-	2,880,000	2,880,000
Bonds payable, long-term	39,200,000	-	-	39,200,000	40,500,000
Interest rate swap contracts	1,478,337	-	-	1,478,337	1,851,505
Total Non-Current Liabilities	47,087,283	-	-	47,087,283	48,704,909
TOTAL LIABILITIES	72,546,772	-	-	72,546,772	70,634,990
NET ASSETS	91,164,135	10,450,983	1,000,968	102,616,086	95,324,714
TOTAL LIABILITIES AND NET ASSETS	\$ 163,710,907	\$ 10,450,983	\$ 1,000,968	\$ 175,162,858	\$ 165,959,704

See notes to financial statements.

NATIONAL PUBLIC RADIO, INC.
Statements of Activities
Year Ended September 30, 2006 (with comparative totals for 2005)

	2006				2005
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
REVENUES					
Membership dues	\$ 1,684,159	\$ -	\$ -	\$ 1,684,159	\$ 2,197,733
Station programming fees	63,724,524	-	-	63,724,524	60,648,575
Grants, contributions & sponsorships	47,165,739	4,501,873	-	51,667,612	52,314,809
Net assets released from restrictions	6,584,737	(6,584,737)	-	-	-
NPR Foundation	8,283,748	-	-	8,283,748	5,385,004
Return on investments	7,981,778	-	-	7,981,778	2,683,366
Distribution services	10,814,780	-	-	10,814,780	18,189,821
Other revenues	4,761,819	-	-	4,761,819	5,313,854
Donated goods & services	698,579	-	-	698,579	1,193,221
TOTAL REVENUES	151,699,863	(2,082,864)	-	149,616,999	147,926,383
EXPENSES					
PROGRAM SERVICES:					
News & information	60,335,151	-	-	60,335,151	56,705,465
Distribution & satellite system replacement	12,562,183	-	-	12,562,183	19,430,612
Engineering	12,332,521	-	-	12,332,521	13,675,561
NPR labs	913,393	-	-	913,393	2,023
Programming	13,609,778	-	-	13,609,778	12,033,111
Digital media	6,798,384	-	-	6,798,384	4,977,671
Consumer products	1,895,752	-	-	1,895,752	2,077,713
Member & program services	4,182,475	-	-	4,182,475	3,473,171
	112,629,637	-	-	112,629,637	112,375,327
SUPPORT SERVICES	30,069,158	-	-	30,069,158	28,080,112
TOTAL EXPENSES	142,698,795	-	-	142,698,795	140,455,439
CHANGE IN NET ASSETS FROM OPERATIONS	9,001,068	(2,082,864)	-	6,918,204	7,470,944
Unrealized gain on swap contracts	373,168	-	-	373,168	1,233,577
CHANGE IN NET ASSETS	9,374,236	(2,082,864)	-	7,291,372	8,704,521
NET ASSETS, BEGINNING OF YEAR	81,789,899	12,533,847	1,000,968	95,324,714	86,620,193
NET ASSETS, END OF YEAR	\$ 91,164,135	\$ 10,450,983	\$ 1,000,968	\$ 102,616,086	\$ 95,324,714

NATIONAL PUBLIC RADIO, INC.
Statements of Cash Flows
Year Ended September 30, 2006 (with comparative totals for 2005)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
CHANGE IN NET ASSETS	\$ 7,291,372	\$ 8,704,521
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Unrealized gain on swap contracts	(373,168)	(1,233,577)
Unrealized/realized (gain) on investments	(5,036,612)	(676,471)
Amortization of deferred financing costs	37,478	35,403
Depreciation:		
Technical equipment, office furnishings and leasehold improvements	3,544,910	3,769,532
Building	886,227	994,164
Decrease in receivables	57,159	2,830,906
Increase in prepaid and other assets	(1,125,639)	(705,572)
Increase (decrease) in accounts payable	913,130	(849,704)
Increase (decrease) in accrued expenses	3,276,727	(929,713)
Increase (decrease) in accrued interest payable	31,631	(6,884)
Increase (decrease) in deferred revenues	231,651	(2,072,434)
(Decrease) increase in deferred lease allowance	(483,930)	2,105,677
(Decrease) increase in book overdraft	(484,267)	393,076
	8,766,669	12,358,924
CASH FLOWS FROM INVESTING ACTIVITIES:		
INVESTMENTS:		
Purchases	(79,294,048)	(58,902,258)
Sales and Maturities	74,759,418	56,896,397
PROPERTY AND EQUIPMENT:		
Purchases	(7,964,749)	(8,582,298)
Disposals, net	1,744	14,713
	(12,497,635)	(10,573,446)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of bonds and note	(1,200,000)	(1,200,000)
	(1,200,000)	(1,200,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,930,966)	585,478
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,911,985	8,326,507
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,981,019	\$ 8,911,985
SUPPLEMENTAL DISCLOSURE:		
Cash payments for interest	\$ 2,184,419	\$ 2,188,078

See notes to financial statements.

NATIONAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

National Public Radio, Inc. (NPR) is a Section 501(c)(3) not-for-profit corporation whose purposes are to produce, acquire, and distribute noncommercial educational programming to the nation's public broadcasting stations, represent its member public radio stations in matters of national interest and assist and support these stations pursuant to the Public Broadcasting Act of 1967. Operating funds are provided in large part by dues and programming fees from member stations.

NPR has a supporting foundation, NPR Foundation (the Foundation), which is a Section 501(c)(3) not-for-profit organization, founded in 1992 with the purpose of raising charitable contributions for the benefit of NPR, disbursing funds to NPR for the operation, promotion, development, capital expansion, and other valid purposes of NPR, and conducting fundraising efforts and engaging in related activities for the benefit of NPR. NPR is the single member of the Foundation with the authority to modify its by-laws.

The accompanying financial statements do not include the accounts of the Foundation, as required by Statement of Position 94-3, "Reporting of Related Entities by Not-For-Profit Organizations". The Foundation's financial statements reported the following financial information as of and for the years ended September 30, 2006 and 2005:

Investments	\$ 258,029,095	\$ 239,715,987
All other assets	3,739,981	2,323,681
Liabilities and accrued expenses	228,914	47,403
Net assets, unrestricted	65,515,043	45,212,786
Net assets, temporarily restricted	683,354	1,437,714
Net assets, permanently restricted	195,341,765	195,341,765
Revenues	28,836,746	16,490,328
Expenses and contribution to NPR	9,288,849	6,251,045
Change in Net Assets	19,547,897	10,239,283

Amounts that would be reported if consolidated statements were prepared are as follows:

	<u>2006</u>	<u>2005</u>
Assets	\$ 436,732,043	\$ 407,982,716
Liabilities	<u>(72,575,795)</u>	<u>(70,665,738)</u>
Net Assets	<u>\$ 364,156,248</u>	<u>\$ 337,316,978</u>
Revenues	170,169,999	159,031,707
Expenses	<u>(143,330,729)</u>	<u>(140,087,903)</u>
Change in Net Assets	<u>\$ 26,839,270</u>	<u>\$ 18,943,804</u>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements of NPR are presented on the accrual basis of accounting and do not include the member radio stations because NPR does not control these entities.

In addition, these financial statements do not include the accounts of the Foundation, as discussed in Note 1, as required by accounting principles generally accepted in the United States of America.

The financial statements include certain prior-year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's audited financial statements for the year ended September 30, 2005, from which the summarized information was derived.

Classification of Net Assets - Net assets are reported separately by class as follows:

- a. Permanently restricted net assets - Contributions and other inflows of assets whose use is limited by donor-imposed stipulations that the resources must be maintained permanently; however, some income may be used by NPR (Note 10).
- b. Temporarily restricted net assets - Contributions and other inflows of assets whose use is limited by donor-imposed stipulations that will expire by passage of time or can be fulfilled and removed by actions of the entity, such as usage for specific programs.
- c. Unrestricted net assets - Unrestricted net assets result from revenues derived from dues, unrestricted contributions, grants, return on investments, and other inflow of assets whose use is not limited by donor-imposed restrictions less expenditures.

Grants, Contributions & Sponsorships - Contribution revenue is recognized when assets or commitments of unconditional promises to give are received. Grant revenue is recognized as earned as expenses are incurred. Contributions of assets other than cash are recorded at fair value at the date of donation. Contributions restricted in perpetuity are classified as permanently restricted. Contributions that are restricted by the donor for a specific time or purpose are reported as temporarily restricted contributions, except those contributions whose restrictions are met in the current fiscal year are recognized as unrestricted revenue. When a donor-stipulated time restriction ends or purpose restriction is accomplished temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Grants and contributions revenue was approximately \$10,700,000 and \$14,600,000 in fiscal years 2006 and 2005, respectively.

All unconditional promises to give, which are expected to be received beyond one year, are discounted to their net present value. Receivables from both pledge and exchange transactions are reduced for any estimated uncollectible amounts.

Sponsorships are exchange transactions and are recognized as revenue when credits are aired or delivered online. Sponsorships remitted in advance of credits aired are reflected as deferred revenue until such time that the credits are aired. Sponsorship revenue was approximately \$41,000,000 and \$37,700,000 in fiscal years 2006 and 2005 respectively.

Donated Goods and Services - NPR receives contributions of goods and services from various sources. These contributions are recorded at the fair value of the goods and services. Revenue is recognized as goods and services are received and the related expenses are reflected in the appropriate functional area that received the benefits of the good or service provided.

All Other Revenues - Membership dues, station programming fees, and distribution interconnection fees for use of the Public Radio Satellite Interconnection System (PR SIS), a component of distribution services (Note 14), are recognized during the membership period, which is also the fiscal year. Revenues from non-programming services, investments, and distribution services, other than that noted above, are recognized when earned. Deferred revenues reflected on the statement of financial position consist primarily of advanced funding of the PR SIS and are generally recognized within a year.

Cash, Cash Equivalents and Book Overdrafts - Cash and cash equivalents reflect amounts that approximate fair value due to the short maturity of these instruments. Operating checking accounts, sweep accounts, interest bearing liquid investment accounts, and repurchase agreements are included in cash and cash equivalents. Book overdrafts, which represent outstanding checks issued that have not been presented to the bank at the balance sheet date, are classified in accounts payable. Book overdrafts were \$1,908,994 and \$2,393,261 at September 30, 2006 and 2005, respectively.

Inventory - Equipment purchased for resale is recorded at lower of cost (FIFO) or market. Inventory held for sale is carried at the lower of cost of production for each item (FIFO) or market. Inventory was \$767,118 and \$618,628 as of September 30, 2006 and 2005, respectively, and is reported in Prepaid and other assets.

Investments - Investment balances, income, and net appreciation are reported as either restricted or unrestricted, in accordance with donor specifications. Unrestricted, temporarily restricted, and permanently restricted funds are invested in a commingled (pooled) manner. NPR employs a time-weighted dollar value accounting method for pooled general investments. Income and net appreciation are distributed proportionately based on value that each fund participates in the investment pool.

Investments are presented at fair value as determined by methodologies relevant to each asset class with any related gain or loss reported in the statement of activities. Equities and fixed income securities listed or traded on a securities exchange are valued at the last sale price on the primary exchange where the security is traded. Marketable securities held by a custodian, either in the organization's name or held for the organization's account in a street name, are valued at the custodian's valuation using a valuation methodology similar to above. Money market accounts are valued as determined by the bank or money market manager. Alternative investments, principally private equity, real estate, and hedge and absolute return funds, are valued using the most recent valuation available by the respective external fund manager. The fair value of certain alternative investments such as private equity interests, is estimated based on valuations provided by external investment managers as of a prior quarter, adjusted for cash receipts, cash disbursements, and securities distributions through September 30. The organization believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Typically private equities and real estate are valued at the lower of cost or market until external events substantiate the change in value or a reasonable methodology exists to capture and quantify changes in value.

Investments are managed in accordance with Board approved investment and spending policies. The policies, including the policy establishing the portion of the portfolio to be spent annually, are designed to preserve the value of the portfolio in real terms (after inflation) and to generate a reliable flow of earnings for support of NPR.

Concentration of Business Activity - Financial instruments, which potentially subject NPR to concentrations of credit risk, consist primarily of cash, cash equivalents, receivables, and investments. NPR maintains cash and cash equivalents and short-term investments with high quality institutions. As of September 30, 2006 and 2005, substantially all of the balances were in excess of the Federal Deposit Insurance Corporation insurance limit. NPR has established guidelines relative to the diversification and maturities of long-term investments to limit the amount placed with any single investment manager. NPR has not incurred any losses due to the credit risk on these instruments or receivables.

Membership dues and station programming fees, representing 44% and 42% of total revenues for the fiscal years 2006 and 2005 come from U.S. non-commercial radio stations. Funding of these stations primarily comes from corporate, foundation, and individual contributions.

Interfund (payable) receivable - Certain assets held in unrestricted, temporarily restricted, and permanently restricted accounts as of the fiscal year end are reflected as interfund payable/receivable on the statement of financial position.

Property and Equipment - Property and equipment are recorded at cost. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the respective assets as follows, taking a half-year depreciation expense in the first and last year of the asset's estimated life: building and improvements - 31 years or the remaining life of the building or improvement; computer equipment - three years; technical equipment and vehicles - five years; office furniture and equipment - eight years; and leasehold improvements - the shorter of the lease term or useful life of the asset.

Deferred Financing Costs - Deferred financing costs represent the unamortized cost of issuing bonds (Note 8). These costs are being amortized over the life of the bonds using the straight-line method.

Derivatives - NPR entered into interest rate swap contracts to minimize its exposure to interest rate fluctuations related to the 2001 District of Columbia and the 2002 California Statewide Communities Development Authority bond issuances. These interest rate swap contracts are accounted for under Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". Since NPR is a not-for-profit organization, the fair value of these derivatives is reflected on the statement of financial position with the related gains and losses reflected on the statement of activities.

Fair Value of Debt Instruments – Bonds and notes payable reflect an amount that is a reasonable estimate of fair value due to variable interest rates that adjust with the currently available terms and conditions for similar debt. The interest rate swap contracts reflect an amount that approximates fair value based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the statement dates.

Income Taxes - Under applicable provisions of the Internal Revenue Code, NPR is exempt from taxes on income other than unrelated business income. No provision for income taxes is required for 2006 and 2005.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on available information that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

The accounting policy concerning investment valuations relies on data from fund managers that cannot be substantiated by third parties, and it is considered to have the largest potential for significant financial impact. Valuations for investments, principally alternative investments, are subjective and require judgment regarding significant matters such as the comparability to similar investments, liquidity, interest rates, and the determination of external events adequate to quantify changes in value. Changes in assumptions could have a significant effect on the fair value of these instruments.

Guarantees and Indemnifications - From time to time, NPR enters into various agreements for acquisition or sale (including licensing) of goods or services. In some of those agreements, it agrees to indemnify the other party against certain losses arising from the transaction under the agreement. NPR is not aware of any material liability arising from such indemnification obligations as of September 30, 2006.

Measure of Operations – Change in net assets from operations includes all revenues and expenses with the exception of gains and losses associated with interest rate swap contracts (Note 7).

Reclassifications - At September 30, 2006, in order to provide greater consistency within the statements of cash flows, we reclassified the change in the deferred lease allowance from cash flows from investing activities to cash flows from operating activities for the year ended September 30, 2005.

Certain items in the fiscal year 2005 financial statements have been reclassified to conform to the presentation of fiscal year 2006.

These reclassifications have no impact on previously reported net income.

3. RELATED PARTIES

NPR pays for NPR Foundation expenses initially and is periodically reimbursed throughout the year by the Foundation. The amounts due to/from NPR Foundation, if any, are reflected in accounts payable and accounts receivable on the accompanying financial statements. As of September 30, 2006 and 2005, the amount due from NPR Foundation was \$199,889 and \$16,653, respectively.

4. INVESTMENTS

NPR's investments at September 30, 2006 and 2005 stated at fair value, are comprised of the following:

	<u>2006</u>	<u>2005</u>
Equities	\$ 31,171,033	\$ 19,578,618
Fixed income	43,517,900	45,837,741
Money market funds	3,144,755	8,446,324
Alternative investments and private equities:		
Hedge funds	16,570,622	10,970,386
Private equities	-	-
	<u> </u>	<u> </u>
Total	<u>\$ 94,404,310</u>	<u>\$ 84,833,069</u>

NPR, Inc. had outstanding commitments of \$2,000,000 and \$0 as of September 30, 2006 and 2005, respectively. These commitments represent amounts expected to be drawn by investment fund managers in the Alternative Investment and Private Equities category of the portfolio. The commitments will be funded by liquidation of other investments.

5. RETURN ON INVESTMENTS

For the years ended September 30, 2006 and 2005, investment return was comprised of the following:

	<u>2006</u>	<u>2005</u>
Dividends and interest	\$ 2,945,166	\$ 2,006,895
Realized gain	870,458	263,451
Unrealized gain	<u>4,166,154</u>	<u>413,020</u>
	<u> </u>	<u> </u>
Total	<u>\$ 7,981,778</u>	<u>\$ 2,683,366</u>

Dividends and interest are reported net of internal and external investment services fees. Investment service fees totaled \$280,833 and \$79,997 in fiscal years 2006 and 2005, respectively.

6. RECEIVABLES, NET

The carrying value of receivables consists of the following as of September 30:

	<u>2006</u>	<u>2005</u>
Receivables, short-term (less than one year)		
Grants & contributions	\$ 1,232,388	\$ 2,576,689
Sponsorships	8,963,489	6,417,939
Member dues	1,413,171	1,166,562
Distribution services	881,488	684,203
Distribution fees	51,812	70,365
Other	781,241	1,757,806
Total receivables, short-term	<u>13,323,589</u>	<u>12,673,564</u>
Allowance for bad debts	<u>(792,012)</u>	<u>(906,951)</u>
Receivables, short-term, net	<u>12,531,577</u>	<u>11,766,613</u>
Receivables, long-term		
One to five years:		
Contributions	7,812,988	7,808,565
More than five years:		
Contributions	1,000,000	2,000,000
Discount to present value	<u>(554,887)</u>	<u>(728,341)</u>
Receivables, long-term, net	<u>8,258,101</u>	<u>9,080,224</u>
Total receivables, net	<u>\$ 20,789,678</u>	<u>\$ 20,846,837</u>

7. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following as of September 30:

	<u>2006</u>	<u>2005</u>
Land	\$ 18,875,249	\$ 17,360,273
Building & improvements	32,388,320	32,298,062
Technical equipment	26,972,312	34,578,197
Office furnishings	3,722,667	4,024,065
Vehicles	206,458	206,457
Construction in process	<u>3,470,210</u>	<u>66,187</u>
	85,635,216	88,533,241
Accumulated depreciation	<u>(35,425,478)</u>	<u>(41,855,377)</u>
Total property and equipment, net	<u>\$ 50,209,738</u>	<u>\$ 46,677,864</u>

8. BONDS AND NOTE PAYABLE/INTEREST RATE SWAP CONTRACTS

In fiscal year (FY) 2001, NPR advance refunded the 1992 District of Columbia Revenue Bonds (National Public Radio Issue) and entered into a Loan Agreement with the District of Columbia to issue District of Columbia Revenue Bonds (National Public Radio Project) Series 2001 (DC Revenue Bonds) in the amount of \$37,900,000 for a term of 30 years. In FY02, NPR entered into a Loan Agreement with the State of California to issue California Statewide Communities Development Authority Revenue Bonds (National Public Radio, Inc. Project) Series 2002 (CA Revenue Bonds) in the amount of \$8,000,000 for a term of 30 years to purchase the NPR West land, production facility, and finance its renovations. In addition, NPR entered into a Loan Agreement with SunTrust Bank to issue a note in the amount of \$3,000,000 for a term to June 15, 2014 with the principal

payment at the end of the term. The 2001 bonds and term note were issued with a variable interest rate, reset each week based upon the underwriter's weekly interest rate. The 2002 bonds were issued with a variable interest rate, reset each month based upon the underwriter's monthly interest rate. The bonds and note have no escrow requirements and each bond has credit support via a letter of credit agreement with SunTrust Bank.

For the years ended September 30, 2006 and 2005 for the DC Revenue Bonds, CA Revenue Bonds, and term note, the variable interest rate ranges were:

	<u>2006</u>	<u>2005</u>
DC Revenue Bonds	3.96% to 5.44%	4.26% to 4.66%
CA Revenue Bonds	2.56% to 3.72%	3.92% to 4.13%
Term note	4.39% to 5.87%	2.34% to 4.19%

For the years ended September 30, 2006 and 2005 for the DC Revenue Bonds, CA Revenue Bonds, and term note, the interest expense was:

	<u>2006</u>	<u>2005</u>
DC Revenue Bonds	\$1,699,309	\$1,723,251
CA Revenue Bonds	332,270	367,532
Term note	152,840	97,295
Total interest expense	<u>\$2,184,419</u>	<u>\$2,188,078</u>

The aggregate bonds and note payments for future fiscal years are as follows:

Fiscal Year	DC Revenue Bonds	CA Revenue Bonds	Term Note	Aggregate Amount
2007	1,100,000	200,000	-	1,300,000
2008	1,100,000	200,000	-	1,300,000
2009	1,200,000	200,000	-	1,400,000
2010	1,200,000	200,000	-	1,400,000
2011	1,300,000	300,000	-	1,600,000
Thereafter	<u>27,400,000</u>	<u>6,100,000</u>	<u>2,880,000</u>	<u>36,380,000</u>
Total	<u>\$ 33,300,000</u>	<u>\$ 7,200,000</u>	<u>\$ 2,880,000</u>	<u>\$ 43,380,000</u>

To manage its exposure to interest rate fluctuations in relation to the 2001 DC Revenue Bonds and the 2002 CA Revenue Bonds, NPR entered into interest rate swap contracts expiring June 15, 2014 with SunTrust Bank (the Contracts). The Contracts require NPR to pay SunTrust a fixed rate of 4.53% and 4.02% (plus fees for an underlying letter of credit) on the face amount of the DC Revenue and CA Revenue Bonds, respectively. In exchange, NPR receives payment from SunTrust of variable interest rates based on the Bond Market Association (BMA) index rates, which are expected to track closely to the variable rate of the bonds. The differential between the fixed and variable rates is accrued and paid as interest rates change and is recorded as a component of interest expense.

The letter of credit agreements for the DC Revenue Bonds, the CA Revenue Bonds, and the term note require NPR (excluding the Foundation) to meet various financial and other covenants each quarter, including: (1) a total liquidity ratio of not less than 70% and (2) a debt service coverage ratio of cash flow to debt service of not less than 1.75 to 1 when the total liquidity ratio is greater than or equal to 70% and less than or equal to 89%, 1.35 to 1 when the total liquidity ratio is greater than 89%. Failure to meet the above debt service coverage ratio shall not result in default if 1) the ratio of cash flow to debt service is not less than 1 to 1, 2) total liquidity is not less than \$50 million, and 3) the debt service coverage ratio was satisfied in the immediately preceding fiscal year. As of September 30, 2006, NPR is in compliance with all covenants.

9. TEMPORARILY RESTRICTED NET ASSETS

As of September 30, 2006 and 2005, temporarily restricted net assets are available for the following purposes:

	<u>2006</u>	<u>2005</u>
News & information	\$ 10,354,732	\$ 11,282,495
Music & entertainment	<u>96,250</u>	<u>1,251,352</u>
Total	<u>\$ 10,450,982</u>	<u>\$ 12,533,847</u>

10. PERMANENTLY RESTRICTED NET ASSETS

Under the terms of a challenge grant from the National Endowment for the Arts (NEA), NPR established a \$1,000,000 permanent Arts and Performance cash reserve. Under the terms of the grant, the interest earned is permitted to be used to support the mission of NPR; NPR may borrow against the cash reserve principal, but any amounts borrowed must be repaid within two years. There are no outstanding borrowings against the cash reserve principal at September 30, 2006 or 2005. As of September 30, 2006 and 2005, the balance of the NEA grant and the matching funds in the amount of \$1,000,968 are reflected in NPR's financial statements as permanently restricted investments and net assets.

11. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

For the years ended September 30, 2006 and 2005 net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, passage of time, or by occurrence of other events specified by donors as follows:

	<u>2006</u>	<u>2005</u>
News & information	\$ 5,333,385	\$ 4,718,584
Music & entertainment	1,251,352	1,263,469
NPR West production facility and other administration of programs	<u>-</u>	<u>466,667</u>
Total restrictions released	<u>\$ 6,584,737</u>	<u>\$ 6,448,720</u>

12. COMMITMENTS

NPR leases office space, equipment, and distribution facilities under noncancelable leases expiring at various dates. The aggregate minimum rental payments under these commitments for future fiscal years are:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 2,203,705
2008	2,284,604
2009	2,278,391
2010	2,298,158
2011	2,344,377
Thereafter	<u>8,466,702</u>
Total minimum future rental payments	<u>\$ 19,875,937</u>

Certain lease agreements call for escalation of rental payments based upon increases in operating costs of the lessor and increases in consumer price indices. Additionally, some of these leases include renewal options ranging from one to ten years. Total lease expense for the years ended September 30, 2006 and 2005, was \$3,612,451 and \$3,400,414 respectively.

13. RETIREMENT PLAN

NPR maintains a defined-contribution retirement plan for its employees, which provides for the purchase of annuity contracts or mutual funds for participants to receive payments at retirement. Under the plan, NPR contributes a percentage of the base salary of each employee who has completed two years of qualified service with NPR and has submitted prescribed enrollment forms. These contributions, together with voluntary employee contributions, are vested in the employees' accounts. The pension expense for the years ended September 30, 2006 and 2005 was \$5,646,574 and \$5,165,915 respectively.

In fiscal year 2003, NPR established two deferred compensation plans to provide certain highly compensated employees the ability to defer a portion of their compensation to provide supplemental retirement benefits under Code Section 457. The plans are funded entirely from the compensation of the participants and vest with the employee either immediately or based upon specific future events. At September 30, 2006 and 2005 participants in the 457(b) and 457(f) plans have deferred balances, including interest, totaling \$740,284 and \$508,322, respectively, which is included in other accrued expenses, long-term.

14. PUBLIC RADIO SATELLITE INTERCONNECTION SYSTEM

Ownership and Operation - The Public Radio Satellite Interconnection System (PR SIS) consists of a lease of satellite transponders and related purchased ground equipment, through which public radio programming is distributed to interconnected public radio stations. The leasehold rights for the satellite transponders and "national-level" ground equipment (i.e., ground equipment not owned by individual interconnected stations) are owned by the Public Radio Satellite Interconnection System Charitable Trust (commonly called "SuperTrust"). SuperTrust was created on July 16, 1990 (as amended and restated on October 27, 2000), replacing previous trust arrangements, which had been established beginning in 1983. SuperTrust is qualified as a tax-exempt, charitable trust and holds title to the leased and purchased satellite equipment and transponders in trust for the benefit of interconnected public radio stations. The power and duties to administer the SuperTrust estate are vested in three Trustees duly elected by the participating interconnected public radio stations. Certain fundamental actions contemplated by the SuperTrust agreement, however, require a majority vote of the participating interconnected public radio stations.

Over time the SuperTrust has executed various agreements with NPR to lease or sublease its assets to NPR. These leases, including a transponder lease and a separate lease covering other national-level interconnection equipment, currently require no payments to the SuperTrust and describe the arrangements under which NPR operates the PR SIS. NPR's responsibilities under these leases include, among other things, maintenance and repair of the equipment. On October 27, 2000, the parties executed a new transponder sublease agreement

covering the satellite transponders on the Galaxy IVR satellite. The term of the transponder sublease parallels the term of the transponder lease with the satellite provider. The leases may be terminated by a majority vote of the participating public radio stations at any time on 24 months' notice without cause, and at any time with cause upon notice.

Satellite System Replacement - In the Public Telecommunications Act of 1988, Congress authorized funds to replace, refurbish, and upgrade the public radio and television satellite interconnection systems. Subsequently, Congress appropriated funds for this purpose. The authorizing legislation established a special fund, the Public Broadcasting Satellite Interconnection Fund, to support the project. The Fund is administered by the Corporation for Public Broadcasting (CPB) which, in turn, has contracted with NPR as the entity to carry out the public radio portion of the project. NPR has established the Future Interconnection System Project Office (FISPO), which administers the project. A total of \$400,196 and \$1,355,223 was funded to NPR via the FISPO project for the fiscal years ended September 30, 2006 and 2005, respectively.

NPR and CPB also entered into an agreement in 1999 that provides CPB funding for a project undertaken by NPR to replace satellite capacity for the PRSIS. This project is called the Capacity Replacement Program (CRP). Congress provided funds totaling \$47,934,000 to CPB for this purpose. The term of this agreement extends over multiple years, having no fixed end date, and the funds, together with any accrued interest, are available until spent. A total of \$1,913,433 and \$6,407,668 was funded to NPR via the CRP project for the fiscal years ended September 30, 2006 and 2005, respectively.

CPB funding for the FISPO project was fully exhausted during fiscal year 2005 and the remaining CPB funding totaling \$3.8 million for the CRP project was received in January 2006. Additional funding totaling \$5 million was received from the SuperTrust. NPR management expects the remaining funds and additional funding to be sufficient to enable completion of the FISPO and CRP projects. In the event the funds are not sufficient, NPR has the opportunity to request additional funds from CPB, the SuperTrust, or other funding sources. If external funding cannot be secured, NPR bears the obligation to fund the remaining costs to complete the FISPO and CRP projects with internal funds.