

NATIONAL PUBLIC RADIO, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2008
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2007)

NATIONAL PUBLIC RADIO, INC.
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(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2007)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
National Public Radio, Inc.
Washington, D.C.

We have audited the accompanying consolidated statement of financial position of National Public Radio, Inc. as of September 30, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the consolidated financial statements of National Public Radio, Inc. as of September 30, 2007, and in our report dated December 20, 2007, we expressed an unqualified opinion on those consolidated statements.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the National Public Radio, Inc. as of September 30, 2008, and the consolidated changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.



LarsonAllen LLP

Arlington, Virginia
December 19, 2008

NATIONAL PUBLIC RADIO, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2008
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2007)

	2008				2007
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 87,313,607	\$ -	\$ -	\$ 87,313,607	\$ 3,174,425
Investments	9,472,229	-	1,000,968	10,473,197	28,510,189
Receivables, net	22,290,082	-	-	22,290,082	17,670,397
Prepaid and other assets	5,127,339	-	-	5,127,339	4,505,499
Interfund (payable) receivable	(8,505,189)	8,505,189	-	-	-
Total Current Assets	115,698,068	8,505,189	1,000,968	125,204,225	53,860,510
PROPERTY AND EQUIPMENT, NET	69,723,001	-	-	69,723,001	51,774,481
NON-CURRENT ASSETS:					
Investments	130,172,139	-	195,470,726	325,642,865	385,587,758
Receivables, net	250,000	6,208,443	-	6,458,443	13,684,001
Prepaid and other assets	87,520	(1,612)	-	85,908	174,293
Deferred financing costs	222,646	-	-	222,646	699,837
Intangibles assets, net	7,749,586	-	-	7,749,586	-
Total Non-Current Assets	138,481,891	6,206,831	195,470,726	340,159,448	400,145,889
TOTAL ASSETS	\$ 323,902,960	\$ 14,712,020	\$ 196,471,694	\$ 535,086,674	\$ 505,780,880
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	\$ 6,918,385	\$ -	\$ -	\$ 6,918,385	\$ 2,334,185
Note payable	45,000,000	-	-	45,000,000	-
Current portion of long-term debt	200,000	-	-	200,000	1,300,000
Accrued expenses	19,095,750	-	-	19,095,750	15,846,866
Accrued interest payable	161,209	-	-	161,209	188,566
Deferred revenues	3,611,021	-	-	3,611,021	12,321,360
Total Current Liabilities	74,986,365	-	-	74,986,365	31,990,977
NON-CURRENT LIABILITIES:					
Other accrued expenses	2,515,965	-	-	2,515,965	3,770,251
Notes payable	4,735,670	-	-	4,735,670	2,880,000
Bonds payable	6,600,000	-	-	6,600,000	37,900,000
Interest rate swap contracts	1,526,034	-	-	1,526,034	1,489,190
Total Non-Current Liabilities	15,377,669	-	-	15,377,669	46,039,441
TOTAL LIABILITIES	90,364,034	-	-	90,364,034	78,030,418
Minority interest	1,264,937	-	-	1,264,937	-
NET ASSETS	232,273,989	14,712,020	196,471,694	443,457,703	427,750,462
TOTAL LIABILITIES AND NET ASSETS	\$ 323,902,960	\$ 14,712,020	\$ 196,471,694	\$ 535,086,674	\$ 505,780,880

See accompanying Notes to Consolidated Financial Statements.

NATIONAL PUBLIC RADIO, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2007)

	2008			2007	
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
REVENUES					
Membership dues	\$ 2,566,583	\$ -	\$ -	\$ 2,566,583	\$ 2,205,840
Station programming fees	65,292,699	-	-	65,292,699	65,478,100
Grants, contributions, & sponsorships	57,723,567	4,775,198	9,003	62,507,768	74,199,434
Net assets released from restrictions	11,731,775	(11,731,775)	-	-	-
Distribution services	14,554,807	-	-	14,554,807	10,723,446
Commissions	4,647,503	-	-	4,647,503	-
Other revenues	7,866,165	-	-	7,866,165	6,449,939
Donated goods & services	369,263	-	-	369,263	890,899
Return on investment from working capital	670,542	-	-	670,542	1,464,070
Investment return designated for current operations	3,481,825	-	-	3,481,825	2,400,981
TOTAL REVENUES	168,904,729	(6,956,577)	9,003	161,957,155	163,812,709
EXPENSES					
PROGRAM SERVICES:					
News & information	77,273,571	-	-	77,273,571	67,071,948
Distribution & satellite interconnection	15,087,760	-	-	15,087,760	12,220,732
Engineering	10,999,130	-	-	10,999,130	11,884,596
Programming	12,312,708	-	-	12,312,708	12,124,327
Digital media	11,705,443	-	-	11,705,443	8,648,203
Consumer products	2,176,811	-	-	2,176,811	1,938,314
Strategy & partnerships	9,997,190	-	-	9,997,190	9,343,772
Public interactive	313,307	-	-	313,307	-
Total Program Services	139,865,920	-	-	139,865,920	123,231,892
SUPPORT SERVICES	38,537,956	-	-	38,537,956	27,936,626
TOTAL EXPENSES	178,403,876	-	-	178,403,876	151,168,518
CHANGE IN NET ASSETS FROM OPERATIONS	(9,499,147)	(6,956,577)	9,003	(16,446,721)	12,644,191
Investment return designated for current operations	(3,481,825)	-	-	(3,481,825)	(2,400,981)
Return on investments, net	(47,598,349)	-	15,882	(47,582,467)	53,364,785
Amortization of intangible assets, non-operating	(1,734,962)	-	-	(1,734,962)	-
Gain on sale of building	85,095,441	-	-	85,095,441	-
Early redemption of bonds	(440,443)	-	-	(440,443)	-
Change in value of swap contracts	(36,845)	-	-	(36,845)	(13,781)
CHANGE IN NET ASSETS BEFORE MINORITY INTEREST	22,303,870	(6,956,577)	24,885	15,372,178	63,594,214
MINORITY INTEREST	335,063	-	-	335,063	-
CHANGE IN NET ASSETS	22,638,933	(6,956,577)	24,885	15,707,241	63,594,214
NET ASSETS, BEGINNING OF YEAR	209,635,056	21,668,597	196,446,809	427,750,462	364,156,248
NET ASSETS, END OF YEAR	\$ 232,273,989	\$ 14,712,020	\$ 196,471,694	\$ 443,457,703	\$ 427,750,462

See accompanying Notes to Consolidated Financial Statements.

NATIONAL PUBLIC RADIO, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2008
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2007)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
CHANGE IN NET ASSETS	\$ 15,707,241	\$ 63,594,214
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Decrease in value of swap contracts	36,844	13,781
Unrealized/realized loss (gain) on investments	56,637,903	(44,285,848)
Gain on sale of headquarters building	(85,095,441)	-
Loss on disposal of other property and equipment	5,579	-
Amortization of deferred financing costs	36,749	39,077
Amortization of intangible assets	1,734,962	-
Depreciation:		
Technical equipment, office furnishings and leasehold improvements	2,586,795	3,438,614
Buildings	1,461,445	1,017,371
Decrease (increase) in receivables	2,605,873	(9,794,972)
(Increase) decrease in prepaid and other assets	(621,840)	364,351
Increase in other assets, long-term	(8,865,536)	-
Increase (decrease) in accounts payable	4,584,200	(297,689)
Increase in accrued expenses	2,216,101	1,610,551
Decrease in accrued interest payable	(27,357)	(7,868)
(Decrease) increase in deferred revenues	(8,710,339)	7,179,309
Investment return restricted for endowment purposes	(15,882)	(28,837)
(Decrease) increase in deferred lease allowance	(221,503)	168,460
Increase in minority interest	1,264,937	-
	(14,679,269)	23,010,514
CASH FLOWS FROM INVESTING ACTIVITIES:		
INVESTMENTS:		
Purchases	(85,632,235)	(126,325,858)
Sales and maturities	106,976,216	108,943,742
PROPERTY AND EQUIPMENT:		
Purchases	(52,520,563)	(6,020,233)
Proceeds from sale of headquarters building	115,523,481	-
	84,346,899	(23,402,349)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Investment return restricted for endowment purposes	15,882	28,837
Bonds and notes payable payments	(32,400,000)	(1,300,000)
Proceeds from notes payable	46,855,670	-
	14,471,552	(1,271,163)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	84,139,182	(1,662,998)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,174,425	4,837,423
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 87,313,607	\$ 3,174,425
SUPPLEMENTAL DISCLOSURE:		
Cash payments for interest	\$ 2,212,437	\$ 2,099,150

See accompanying Notes to Consolidated Financial Statements.

NATIONAL PUBLIC RADIO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2007)

NOTE 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 substantially via 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, programming fees, and commissions from member stations.

These consolidated financial statements also include the accounts of the NPR Foundation (the Foundation) and National Public Media, LLC (NPM), an 80% owned for-profit subsidiary. Consolidated financial statements are presented because of the common control of the Foundation, NPM, and NPR, collectively referred to herein as "NPR".

The Foundation is a Section 501(c)(3) not-for-profit organization, which was 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 sole member of the Foundation.

In fiscal year 2006, NPR Media Berlin gGmbH was formed to broadcast noncommercial educational radio programming, including news, talk, and cultural programming in Germany. The programming consists primarily of the English-language programming produced by NPR Media Berlin gGmbH's sole shareholder, National Public Radio, Inc. The Media Authority of Berlin Brandenburg (MABB) issued an FM radio station license in Berlin to it for the period April 1, 2006 through March 31, 2013. Activity of NPR Media Berlin gGmbH is included in the Program Services section of the consolidated statement of activities.

In September 2007, National Public Radio, Inc. along with another public broadcasting entity formed National Public Media, LLC (NPM), in which NPR holds an 80% owner interest, for the purpose of representing entities of the public radio and television industry to secure public broadcasting underwriting and sponsorship. In October 2007, NPM acquired the assets and liabilities of National Public Broadcasting (NPB), retaining the former NPB staff and hiring the NPR Corporate Sponsorship staff to form the new organization. As of September 30, 2007, NPM owned no assets or liabilities. No financial information is presented for prior year activities and eleven months of activity are included in the fiscal year 2008 activities in these consolidated statements.

In November 2007, NPR entered into a Limited Liability Company Agreement of Broadcaster Traffic Consortium, LLC with a 12.5% owner interest with seven other equal partners. The company was formed to create and operate an RBDS and High Definition Radio distribution network for Content Providers. An initial capital contribution was made in January 2008 and is reflected in non-current prepaid and other assets on these consolidated statements. No additional capital contributions or distributions have been made.

NATIONAL PUBLIC RADIO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 ORGANIZATION (CONTINUED)

On August 28, 2008, NPR acquired the assets and selected liabilities of Public Interactive (PI), a Section 501(c)(3) not-for-profit organization, as well as the operations and personnel for the purpose of developing a digital distribution infrastructure to serve stations, producers, networks, and their partners in the communities NPR serves. At acquisition, nineteen former PI staff were retained and hired as NPR employees. No financial information is presented for prior year activities and one month of activity is included for fiscal year 2008 in these consolidated financial statements. The revenue and expense activity is reflected on the consolidated statement of activities in separate line items. The assets and liabilities are reflected on the respective line items on the consolidated statement of financial position.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated 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.

The consolidated 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, 2007, from which the summarized information was derived.

Classification of Net Assets

Net assets are reported separately by class as follows:

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).

Temporarily Restricted Net Assets – Contributions and other inflows of assets whose use is limited by donor-imposed stipulations that will expire by donor payment of a pledge, passage of time, or can be fulfilled and removed by actions of the entity, such as usage for specific programs.

Unrestricted Net Assets – Unrestricted net assets result from revenues derived from station fees, unrestricted contributions, grants, sponsorships, return on investments, and other inflows of assets whose use is not limited by donor-imposed restrictions less expenditures.

NATIONAL PUBLIC RADIO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2007)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants, Contributions and 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, or unpaid contributions not explicitly designated as available to support current operations, 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, or when a pledge not designated for current year use is paid, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Grants and contributions revenue was approximately \$16,600,000 and \$28,200,000 in fiscal years 2008 and 2007, 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 digitally (e.g. online web, mobile devices, podcasts, etc.). Sponsorships remitted in advance of credits aired are reflected as deferred revenue until such time that the credits are aired. Sponsorship and commission revenue was approximately \$50,500,000 and \$46,000,000 in fiscal years 2008 and 2007, respectively.

Donated Goods and Services

NPR records contributions of goods and services at their fair values. 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 or service period, which is generally the fiscal year. Revenues from affiliate fees, non-programming services, investments, and distribution services, other than that noted above, are recognized when earned. Deferred revenues reflected on the consolidated statement of financial position consist primarily of advanced funding of PR SIS and fiscal year 2009 programming fees and membership dues, which are recognized within a year.

Functional Expenses

Support services are comprised of both general and administrative expenses and fundraising expenses. Fundraising expenses approximate 4% of total expenses.

NATIONAL PUBLIC RADIO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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. Restricted cash of \$161,677, which represents a deposit with a financial institution as collateral for a standby letter of credit in favor of the landlord on an office lease agreement, is included in the balance as of September 30, 2008.

Inventory

Equipment purchased for resale to participants of the PRSIS is recorded at lower of cost (FIFO) or market. Inventory held for sale, primarily the online shop, is carried at the lower of cost of production for each item (FIFO) or market. Inventory was \$749,889 and \$824,333 as of September 30, 2008 and 2007, respectively, and is reported in prepaid and other assets.

Investments

Investment balances and net return on investments, including net appreciation and depreciation and income and losses, 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 investments. Income, losses, net appreciation or depreciation, and investment fees 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 consolidated 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. Money market accounts are valued as determined by the bank or money market manager. 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 by the custodian using a valuation methodology similar to above. Marketable securities held by mutual funds, pooled investment funds and hedge funds are valued by the fund manager using a valuation methodology similar to above.

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. Hedge funds encompass a wide range of investments, including long/short, distressed debt, merger arbitrage, real estate, and others. The allocations to each strategy vary, depending on market conditions. 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. 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. The asset allocation of NPR's portfolio is intended to provide

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

exposure to a diverse set of markets. These markets are subject to various risks such as interest rate, market, sovereign, and credit risks. NPR anticipates that the value of its investments may, from time to time, fluctuate as a result of these risks and anticipates that the structured diversification will provide counter-fluctuations within the portfolio to mitigate market risks. The organization believes the carrying amount of these financial instruments is a reasonable estimate of fair 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 deflation) and to generate a reliable flow of earnings for support of NPR. The portion of the Foundation portfolio that is distributed each year is based on a rate that is approved by the Foundation Board of Trustees. This rate is not set based on a specific formula, nor is it directly tied to current investment returns. Rather, it reflects expectation about non-current returns and inflation rates, and seeks to maintain a consistent distribution rate based upon the portfolio's twelve-quarter rolling average market value ending on the 31st of March, preceding each fiscal year. Should the Foundation's portfolio yields prove to be insufficient to support the annual spending policy, the balance may be provided from prior years' total investment return or unrestricted funds, subject to donor limitations. Should the portfolio's yields exceed the amounts necessary to maintain this objective, the balance is reinvested in the portfolio.

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 current investments with high quality institutions. As of September 30, 2008 and 2007, 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 non-current 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.

A combination of membership dues and station programming fees, representing 42% and 41% of total revenues for the fiscal years 2008 and 2007, is derived from U.S. non-commercial radio stations. Funding of these stations is primarily derived from corporate, foundation, and individual contributions.

Property and Equipment

Acquisitions of property and equipment greater than or equal to \$1,000 with an estimated useful life of more than one year are capitalized 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: buildings and improvements – thirty-one and a half years; computer equipment - three years; technical equipment purchased prior to fiscal year 2007 – five years; technical equipment purchased subsequent to fiscal year 2006 – three years; vehicles – five years; office furniture and equipment - eight years; and leasehold improvements - the shorter of the lease term or useful life of the asset.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Financing Costs

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

Split Interest Agreements

NPR is the beneficiary of a split interest agreement in the form of a pooled income fund. Assets of the split interest agreement of \$20,123 and \$25,539 are included in non-current prepaid and other assets on the consolidated statement of financial position as of September 30, 2008 and 2007, respectively. The value of the split interest agreement is measured as NPR's share of fair value of the assets. Liabilities associated with the agreement of \$9,562 and \$14,977 are included in non-current other accrued expenses on the consolidated statement of financial position as of September 30, 2008 and 2007, respectively.

Derivatives

NPR entered into interest rate swap contracts to minimize its exposure to interest rate fluctuations related to variable rate debt. 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 consolidated statement of financial position with the related gains and losses reflected on the consolidated 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, with the exception of its for-profit subsidiary, NPM, is exempt from taxes on income other than unrelated business income. Under the requirements of FASB Interpretation No. 48 (FIN 48), NPR evaluated its tax positions and determined that its positions are more-likely-than-not to be sustained on examination. No provision for income taxes is required for 2008 and 2007.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates(continued)

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, 2008.

Measure of Operations

Change in net assets from operations includes all revenues and expenses of regularly carried-on business and does not include gains and losses associated with the sale of building (Note 6), amortization of intangible assets (Note 7), changes in value of the interest rate swap contracts (Note 8), loss on early redemption of debt (Note 8), investment returns not designated for current operations, and the minority interest in NPM.

Reclassifications

Certain items in the fiscal year 2007 consolidated financial statements have been reclassified to conform to the presentation of fiscal year 2008. These reclassifications have no impact on previously reported change in net assets.

NOTE 3 INVESTMENTS

NPR's investments at September 30, 2008 and 2007, stated at fair value, are comprised of the following:

NATIONAL PUBLIC RADIO, INC.
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NOTE 3 INVESTMENTS (CONTINUED)

	<u>2008</u>	<u>2007</u>
Alternative investments		
Hedge funds	\$ 86,426,804	\$ 78,414,085
Real estate and other assets	26,702,566	24,440,471
Private equities	<u>10,131,096</u>	<u>2,743,781</u>
Total alternative investments	<u>123,260,466</u>	<u>105,598,337</u>
Equities	117,366,545	193,047,807
Fixed income	89,916,401	106,177,773
Money market funds	<u>5,572,650</u>	<u>9,274,030</u>
Total	<u>\$ 336,116,062</u>	<u>\$ 414,097,947</u>

The estimated net realizable value of stock in Overseas Partners Ltd. (OPL), a Bermuda-based reinsurance company, was \$125,334 as of September 30, 2007 and was included in private equities. OPL made the final payment of liquidating distributions of \$171,841 in December 2007.

NPR has outstanding commitments of \$41,018,277 and \$44,562,418 as of September 30, 2008 and 2007, respectively. These commitments represent amounts expected to be drawn by investment fund managers in the Alternative Investments category of the portfolio. The commitments will be funded by liquidation of the other investments.

NOTE 4 RETURN ON INVESTMENTS

For the years ended September 30, 2008 and 2007, investment return was comprised of the following:

	<u>2008</u>	<u>2007</u>
Dividends and interest	\$ 10,964,698	\$ 12,019,554
Realized gain	5,489,686	2,608,646
Unrealized (loss) gain	(62,127,591)	41,677,202
Direct investment services fees	<u>(1,238,718)</u>	<u>(1,476,547)</u>
Total return	<u>\$ (46,911,925)</u>	<u>\$ 54,828,855</u>

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NOTE 5 RECEIVABLES, NET

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

	<u>2008</u>	<u>2007</u>
Receivables, current (less than one year):		
Grants and contributions	\$ 3,819,844	\$ 2,522,203
Sponsorships	15,515,696	12,743,561
Station fees	1,367,616	851,612
Distribution & PRSS services	710,676	371,505
Other	1,687,862	1,922,898
Total receivables, current	<u>23,101,694</u>	<u>18,411,779</u>
Allowance for bad debt	<u>(811,612)</u>	<u>(741,382)</u>
Receivables, current, net	<u>22,290,082</u>	<u>17,670,397</u>
Receivables, non-current:		
One to five years:		
Contributions	6,376,509	13,901,401
Public Radio Fund	250,000	-
Discount to present value	<u>(168,066)</u>	<u>(217,400)</u>
Receivables, non-current	<u>6,458,443</u>	<u>13,684,001</u>
Total receivables, net	<u>\$ 28,748,525</u>	<u>\$ 31,354,398</u>

NOTE 6 PROPERTY AND EQUIPMENT

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

	<u>2008</u>	<u>2007</u>
Land	\$ 47,477,777	\$ 18,875,249
Buildings and improvements	15,663,657	35,600,785
Technical equipment	26,872,981	27,302,111
Office furnishings	3,771,137	3,722,667
Vehicles	110,551	137,307
Construction in progress	6,242,342	2,902,122
	<u>100,138,445</u>	<u>88,540,241</u>
Accumulated depreciation	<u>(30,415,444)</u>	<u>(36,765,760)</u>
Total property and equipment, net	<u>\$ 69,723,001</u>	<u>\$ 51,774,481</u>

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NOTE 6 PROPERTY AND EQUIPMENT (CONTINUED)

In July 2008, NPR acquired property and development rights as a development site for its new headquarters building. This purchase is reflected entirely in the Land category above. In September 2008, NPR sold its existing headquarters building and land to a development management company. The assets were retired and a gain of \$85,095,441 was recorded.

The assets in the Construction in progress category primarily represent multi-year projects of upgrading the content management system used for audio distribution and construction of a new headquarters building.

NOTE 7 INTANGIBLE ASSETS

NPR has two reporting units with intangible assets, National Public Media, LLC and National Public Radio, Inc. (Parent Company Only) (PCO). NPM's intangible assets are a result of the purchase of assets of National Public Broadcasting in October 2007 and NPR (PCO)'s intangible assets are a result of the purchase of assets of Public Interactive in August 2008. Intangible assets from NPM include a covenant not to compete, workforce in place, contracts in force, and goodwill. Intangible assets from the purchase of Public Interactive include a covenant not to compete, intellectual property, and goodwill.

Goodwill and intellectual property are tested for impairment annually using both financial and operational criteria. In fiscal year 2008, based on the established criteria, there was no impairment recorded. Other intangible assets are amortized using the straight-line method over the estimated life of the asset, as follows: covenant not to compete – 60 months; workforce in place – 24 months; contracts in force – 36 months.

	Beginning Balance	Additions	Amortization	Impairments	Ending Balance
Amortized intangible assets:					
Covenant not to compete	\$ -	\$ 2,322,832	\$ 342,519	\$ -	\$ 1,980,313
Workforce in place	-	1,822,832	835,466	-	987,367
Contracts in force	-	1,822,832	556,977	-	1,265,853
Subtotal	-	5,968,496	1,734,962	-	4,233,533
Unamortized intangible assets:					
Goodwill	-	2,716,053	-	-	2,716,053
Intellectual property	-	800,000	-	-	800,000
Subtotal	-	3,516,053	-	-	3,516,053
Total intangible assets	\$ -	\$ 9,484,549	\$ 1,734,962	\$ -	\$ 7,749,586

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NOTE 8 BONDS AND NOTES PAYABLE/INTEREST RATE SWAP CONTRACTS

In fiscal year 2001, NPR 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 fiscal year 2002, 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. Also in fiscal year 2002, 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. In fiscal year 2008, NPR entered into a Bridge Loan Note with SunTrust Bank in the amount of \$60,000,000 for a term of one year in connection with the purchase of property for the new headquarters building. The outstanding balance due at September 30, 2008, was \$45,000,000.

The 2001 and 2002 bonds and term note were issued with a variable interest rate, reset each week based upon the underwriter's weekly interest rate. The Bridge Loan Note was issued with a variable interest rate, reset each month based upon the 30-day LIBOR interest rate. Interest in the amount of \$217,991 related to this loan has been capitalized and is reflected in the construction in progress amount in Note 6. The bonds and notes have no escrow requirements and each bond has credit support via a letter of credit agreement with SunTrust Bank.

On September 26, 2008, the 2001 District of Columbia Revenue Bonds were called for redemption and were defeased and subsequently extinguished on October 16, 2008 in the amount of \$31,166,874. As of September 30, 2008, these bonds and the corresponding offsetting deposit to the Trustee's account effectively eliminated NPR's obligation and were removed from the financial statements.

Through the acquisition of Public Interactive, NPR assumed a term note with the Ford Foundation for \$2,000,000. The stated interest rate for this note is 1% per annum with interest payable quarterly, in arrears. Principal payments are due in February 2011, 2012, and 2013. Based upon an imputed interest rate of 3.09% on this note, the principal balance has been adjusted to \$1,855,671 as of September 30, 2008.

For the years ended September 30, 2008 and 2007, for the DC Revenue Bonds, CA Revenue Bonds, Bridge Loan, and Term note, the variable interest rate ranges were:

	2008	2007
DC revenue bonds	1.57% to 4.33%	2.66% to 3.86%
CA revenue bonds	1.53% to 4.28%	3.50% to 3.86%
Term note	2.95% to 5.74%	5.65% to 6.09%
Bridge loan	2.81% to 2.84%	- -

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NOTE 8 BONDS AND NOTES PAYABLE/INTEREST RATE SWAP CONTRACTS (CONTINUED)

For the years ended September 30, 2008 and 2007, for the DC Revenue Bonds, CA Revenue Bonds, and all notes, the interest expense was:

	2008	2007
DC revenue bonds	\$ 1,569,233	\$ 1,610,041
CA revenue bonds	301,747	489,109
Notes	123,466	156,114
Total interest expense	<u>\$ 1,994,446</u>	<u>\$ 2,255,264</u>

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

Fiscal Year	Bridge Note	Term Note	Foundation Note	CA Revenue Bonds	Scheduled Payment Amount
2009	\$ 45,000,000	\$ -	\$ -	\$ 200,000	\$ 45,200,000
2010	-	-	-	200,000	200,000
2011	-	-	500,000	300,000	800,000
2012	-	-	500,000	300,000	800,000
2013	-	-	1,000,000	300,000	1,300,000
Thereafter	-	2,880,000	-	5,500,000	8,380,000
Total	<u>\$ 45,000,000</u>	<u>\$ 2,880,000</u>	<u>\$ 2,000,000</u>	<u>\$ 6,800,000</u>	<u>\$ 56,680,000</u>

The letter of credit agreement for the CA Revenue Bonds, as well as the Term note and the Bridge Loan Note require NPR (excluding the Foundation and NPM) to meet various financial covenants each quarter, including: (1) a total liquidity of the lesser of \$60 million or 50% of prior year operating expenses and (2) a debt service coverage ratio of cash flow to debt service of not less than 1.1 to 1. As of September 30, 2008, NPR is in compliance with all covenants.

Swap Agreements

To manage its exposure to interest rate fluctuations associated with bonds and notes with variable interest rates, NPR entered into two interest rate swap contracts with SunTrust Bank (the Contracts). The Contracts require NPR to pay SunTrust a fixed rate (plus fees for an underlying letter of credit) per the schedule below. In exchange, NPR receives payment from SunTrust of variable interest rates based on the Bond Market Association (BMA) index rates. This index is expected to track closely to the variable rate of the CA bonds and generally move in parallel with the 30-day LIBOR rate. 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.

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NOTE 8 BONDS AND NOTES PAYABLE/INTEREST RATE SWAP CONTRACTS (CONTINUED)

Fiscal Year	Amount of Swap Contracts	
	4.02% Fixed Rate	4.53% Fixed Rate
2009	\$ 6,600,000	\$ 29,900,000
2010	6,400,000	28,700,000
2011	6,100,000	-
2012	5,800,000	-
2013	5,500,000	-
Expires	April 2014	June 2011

NOTE 9 TEMPORARILY RESTRICTED NET ASSETS

As of September 30, 2008 and 2007, temporarily restricted net assets are available for the following purposes:

	2008	2007
News and information	\$ 12,983,232	\$ 20,430,561
Music and entertainment	58,333	81,666
Endowment for excellence	1,670,455	1,156,370
Total	\$ 14,712,020	\$ 21,668,597

NOTE 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, 2008 and 2007. As of September 30, 2008 and 2007, the balance of the NEA grant and the matching funds in the amount of \$1,000,968 are reflected in these consolidated financial statements as permanently restricted investments and net assets.

Several years ago, the Foundation received contributions totaling \$1,000,000, with donor stipulations that permanently limit the use of assets. Under the terms of the contributions, the amount of each contribution was to establish a permanently restricted fund. The return on investments from the funds is to be used for the support of cultural programming. Further, one contribution required a portion of investment earnings to be added to the principal annually in order to preserve the purchasing power of the fund. In fiscal years 2008 and 2007, respectively, \$15,882 and \$28,837 were added for this purpose. The remaining return on investments is permitted to be used to support current operations.

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NOTE 10 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Over several years the Foundation received a contribution from a single donor of cash and investments totaling \$194,333,663. The contribution established a permanently restricted endowment for the support of NPR operations. The income and net appreciation or depreciation of the endowment are recorded as unrestricted revenue as earned.

NOTE 11 NET ASSETS RELEASED FROM DONOR RESTRICTIONS

For the years ended September 30, 2008 and 2007 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>2008</u>	<u>2007</u>
News and information	\$ 10,649,106	\$ 4,609,277
Music and entertainment	81,666	72,917
Endowment for excellence	160,000	161,497
Mergent fund	831,003	125,000
Fund for new initiatives	10,000	10,000
Total restrictions released	<u>\$ 11,731,775</u>	<u>\$ 4,978,691</u>

NOTE 12 COMMITMENTS

NPR leases office space, equipment, and distribution facilities under noncancelable leases expiring at various dates. In September 2008, NPR sold its existing headquarters building to a development management company and will lease back the property through the construction phase of its new headquarters building. 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, 2008 and 2007, was \$6,398,376 and \$3,941,725, respectively. During fiscal year 2008, excess office space was subleased producing \$110,000 of rental income. The aggregate minimum rental payments under these noncancelable leases for future fiscal years are:

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 9,559,589
2010	9,330,706
2011	3,086,292
2012	2,988,298
2013	2,490,154
Thereafter	4,141,640
Total minimum future rental payments	<u>\$ 31,596,679</u>

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NOTE 12 COMMITMENTS (CONTINUED)

During fiscal year 2007, NPR agreed to support the Public Radio Fund (Fund), established by Public Radio Capital (PRC) via a \$2.5 million loan. The Fund, in which NPR is a senior investor, is a revolving loan fund that offers licensees of public broadcasting stations the opportunity to obtain short-term financing for the acquisition and expansion of their public broadcasting capital assets, which secure the loan. In fiscal year 2008, the Foundation provided NPR with a \$2.5 million grant to cover NPR's loan to the Fund. Based upon a multi-year drawdown schedule, expected over several years, NPR made loan deposits of \$250,000 and \$1,000,000 to the Fund in January 2008 and October 2008, respectively.

NOTE 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, 2008 and 2007 was \$6,625,709 and \$6,069,517, 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 Internal Revenue Code Section 457. The assets of the plans are held by NPR until disbursed to the participant. The plans are funded entirely from the compensation of the participants and vest with the employee either immediately or based upon specific future events. During fiscal year 2008, one of the 457(f) plans was liquidated by the participant. At September 30, 2008 and 2007, former and present participants in the 457(b) and 457(f) plans have accrued and vested balances, including interest, totaling \$916,959 and \$920,538, respectively. These plans come to term in fiscal year 2009. The deferred compensation plans are reflected in the consolidated financial statements as follows:

	<u>2008</u>	<u>2007</u>
Prepaid and other assets	\$ 916,959	\$ 920,538
Accrued liabilities	916,959	920,538

NOTE 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

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NOTE 14 PUBLIC RADIO SATELLITE INTERCONNECTION SYSTEM (CONTINUED)

Ownership and Operation (continued)

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 from NPR to the SuperTrust and describe the arrangements under which NPR operates the PRSIS. 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 lease covering other equipment automatically renews each year for another year beyond its then-current term. 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

Starting in 1988 and on several occasions since then, Congress has authorized funds to replace, refurbish, and upgrade the public radio and television satellite interconnection systems. Typically, the authorizing legislation established a special fund administered by the Corporation for Public Broadcasting (CPB) which, in turn, contracted with NPR as the entity to carry out the public radio portion of the project.

A total of \$2,050,038 was funded to NPR via CPB sponsored projects or other funding sources for the fiscal year ended September 30, 2007.

In May 2008, NPR and CPB entered into an agreement for the next satellite lease agreement including an expansion of transponders on the satellite. This agreement also provides funding for the upgrades to the ContentDepot® System for PRSS, stations and producers within PRSIS, ground equipment replacement and business continuity. The first portion of the grant has been approved by Congress in 2008 for \$26,282,678. A total of \$5,862,523 was funded to NPR for the fiscal year ended September 30, 2008.

NOTE 15 NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework of measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to reporting periods beginning after November 15, 2007. NPR is evaluating the impact of SFAS 157 disclosures for subsequent financial statements.

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NOTE 16 SUBSEQUENT EVENTS

Due to the broad-based decline in the financial markets subsequent to September 30, 2008, the valuation of NPR's investment portfolio(s) has been impacted. NPR continually monitors its investment portfolios and their movements in relation to broad indices. Based on the composition of asset classes within the NPR portfolio, a weighted index of market performance has declined by 13% during the months of October and November.